AMERICAN FAMILIES IN TOMORROW'S ECONOMY

HEARING

BEFORE THE

SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, JULY 1, 1987

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AMERICAN FAMILIES IN TOMORROW'S ECONOMY

WEDNESDAY, JULY 1, 1987

House of Representatives,
Select Committee on Children, Youth, and Families,
Washington, DC.

The Select Committee met, pursuant to call, at 9:30 a.m., in room 2261, Rayburn House Office Building, Hon. George Miller (chairman of the committee) presiding.

Members present: Representatives Miller, Boggs, Boxer, Morrison, Wheat, Evans, Sawyer, Skaggs, Coats, and Grandy.

Staff present: Ann Rosewater, staff director; Anthony Jackson, professional staff; Ginny duRivage, professional staff; Ellen O'Connell, secretary; Carol Statuto, minority deputy staff director; Darcy Coulson Reed, minority research staff; Evelyn Anderes, staff assistant, and Joan Godley, committee clerk.

Chairman Miller. The Select Committee on Children, Youth, and Families will come to order.

Today, the Select Committee will examine a critical issue for American families: the long-term outlook for economic security.

In the decades following World War II, this Nation experienced unparalleled economic expansion, and family living standards rose dramatically. It seemed inevitable that the economic conditions for the Baby Boom generation would continue to improve. But the record of the recent past shows that for families with children that has clearly not been the case. The rising cost of basic family obligations, combined with declining family income, has made it far more difficult for families to feed, house, protect, and educate their children than just a generation ago.

Consider these changes: Between 1973 and 1984, the average income for families with children has declined by 9 percent after accounting for inflation; the home mortgage, which consumed 21 percent of the typical 30-year-old man's income in 1973, today absorbs 44 percent of his income. Health care costs and the price of higher education, still the best ticket to economic success, have far outpaced inflation in the 1980's. Child care costs, the newest major expense for families, now consume nearly 10 percent of the average family's income and 20 percent of the incomes for poor families, and, while we need better data, caring for elderly parents has increasingly become a cost borne by families.

These are not cyclical changes; their influence will extend far into the foreseeable future. In response to these new pressures, families have taken dramatic measures to maintain living standards. First, they have sent many more mothers into the work force. Today, the two-earner family is the norm, not the exception. Recent estimates indicate the loss in family income for the average two-parent family would have been more than three times as great if mothers had not gone to work. By the turn of the century, three-fourths of all school-aged children and two-thirds of children under the age of 5 will have working mothers.

Second, families have stopped having as many children while young couples are increasingly delaying marriage and childbearing. Third, families are going into debt. In 1985, the level of household debt related to disposable income reached 88 percent, a post-war high.

For better or for worse, families have had to make adjustments to the new economic realities. But public and private sector policies clearly have not. As the future unfolds, the failure of both Government and the private sector to respond will compound the pressures on families struggling for security. Business as usual will not suffice in the future.

Today, we will review the financial pressures likely to face families in the future in light of current economic conditions. We will hear testimony from experts and scholars in economics, labor market trends, health care, education, child care, and housing. By examining current trends, we can anticipate future prospects and problems for families, and we can craft public and private policies accordingly. Today's hearing is an important step in that direction.

Opening Statement of Hon. George Miller, a Representative in Congress From the State of California and Chairman, Select Committee on Children, Youth, and Families

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But public and private sector policies clearly have not. As the future unfolds, the failure of both government and the private sector to respond will compound the pressures on families struggling for security.

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"American Families in Tomorrow's Economy"—a Fact Sheet

FINANCIAL PRESSURES ON FAMILIES MOUNTING

Between 1973 and 1984, mean real income declined for families with children by 8%, compared to a 13.5% increase between 1967 and 1973. Between 1973 and 1985, mean real income for married couples without children increased by 7%, and income for single individuals rose by 12%. (Joint Economic Committee [JEC], November 1985; U.S. Census Bureau, 1986)

Between 1973 and 1985, the percentage of working married mothers with children climbed by nearly one-third, from 40% to 52%. The loss in family income for the average two-parent family would have been more than three times as great during this period if mothers had not gone to work. (JEC, May 1986)

The minimum wage, which in the 1960's and 1970's provided a family of three with enough income to escape poverty, now falls $2,100 short. A full-time, year-round worker earning the current minimum wage will bring home $6,968 a year, only 77% of the estimated 1987 poverty threshold of $9,044 for a family of three. (Center on Budget and Policy Priorities, 1987)

INEQUALITY INCREASING IN THE DISTRIBUTION OF INCOME AMONG FAMILIES WITH CHILDREN

Between 1973 and 1984, inequities in the distribution of income in the U.S. have increased. The proportion of families with incomes over $50,000 increased from 14.9% to 15.6%; the proportion of families with incomes below $20,000 increased from 32.1% to 36.4%; the proportion of families with incomes between $20,000 and $50,000 fell from 53.0% to 47.9%. (Bradbury, 1986)

Throughout the 1950s and 1960s, the poorest one-fifth of families included 15% to 17% of the nation's children. By 1984, the poorest families contained 24% of all children in the U.S. (Levy, 1987)

Poverty among families with children has risen significantly in the 1980's. Between 1979 and 1984, poverty among all persons in families with children increased 37%, from 12.7% to 17.4%. Among two-parent families, poverty rose from 7% to 10.6%, or by 51% percent, while poverty among female-headed, single-parent families rose from 42.2% to 48.2%, or by 14%. (JEC, November 1986)

Income inequality in the U.S. is much greater than in other Western countries. Child poverty in the United States is 60 percent higher than the rate in Great Britain, nearly 80% higher than the rate in Canada, and more than double the rate in W. Germany, Norway and Sweden. This is despite the fact that U.S. workers have higher average incomes than workers in any of these countries. (Burtless, 1987)

FAMILIES BORROWING MORE MONEY TO MAKE ENDS MEET

Sixty-five percent of U.S. households are in debt and 55% owe more than they own in financial assets. (Polin, 1987)

In 1985, the level of household debt relative to disposable income reached a post-war high of 88%. (Polin, 1986)

Between 1970 and 1983, the debt-to-income ratio has increased 83% for families in the lowest income quintile and 30% for families in the second lowest quintile. (Polin, 1987)

EMPLOYMENT TRENDS THREATEN ECONOMIC SECURITY

Between 1978 and 1984, 37% of new jobs paid less than $8,700 a year in 1984 dollars, compared to 27% between 1963 and 1978. (Working Women Education Fund, 1986)

Between 1968 and 1985, part-time employment has grown faster than full-time work, registering a 40% growth rate versus a full-time employment growth of 32%. (Nardone, 1986)

Twenty-eight percent of all part-time workers earn the minimum wage compared to 5% of all full-time workers. (Levitan and Shapiro, 1986)

Between 1984 and 1995, the majority of occupations with the largest expected job growth includes cashiers, janitors, nursing aids, waiters and waitresses, and retail sales clerks. (U.S. Bureau of Labor Statistics [BLS], 1985)

PROVIDING A HOME INCREASINGLY DIFFICULT

In 1978, the typical home buyer had to make a downpayment of about one-third of his or her household income; by 1985, the share had risen to 50%. (Joint Center For Housing Studies [JCHS], MIT, 1986)

For an average thirty-year-old male in 1973, the median priced home would have absorbed 21% of monthly pay; in 1984, the median priced home absorbed 44% of his monthly income. (JEC, December 1985)

After steadily climbing for decades, the rate of homeownership has declined during the 1980's. Hardest hit are younger households; between 1981 and 1985, ownership rates for householders under 25 years of age declined by about 16%, for householders 25—29 by 10%, and for householders 30—34 by 8%. (JCHS, 1986)

The median rent burden (rent plus heating payments) increased from 20% of household income in 1970 to 29% in 1983. The share of households with rent burdens below one-fourth of their income dropped from 60% in 1974 to 40% in 1983. The share of households with rent burdens above 75% of income rose from 8% to 13%. (JCHS, 1986)

In 1983, the median rent burden for households in the lowest income quintile had risen to 46% of income, up from 35% in 1974, and in 1983 over one-fourth of the households in this group had rent burdens above three-fourths of income. (JCHS, 1986)

Given current demographic and housing trends, between 1983 and 2003, the total number of low-rent units in America is projected to fall from 12.9 million to 9.4 million, a 27% loss. During the same period, the total number of households needing low-rent units is projected to increase from 11.9 million to 17.2 million, a 44% increase. (Clay, 1987)

CHILD CARE: THE NEW "BIG TICKET ITEM" FOR FAMILIES WITH CHILDREN

Half of all married mothers with infants are in the workforce—a 108% increase since 1970. Fifty-four percent of married mothers of children under 6 are in the labor force, up by 80% since 1970. (SCCYF, 1987)

In 1985, 68% of female single parents worked, up from 60% in 1973. (JEC, November 1986)

By 1995, two-thirds of all preschool children will have mothers in the workforce. Four out of five children between the ages of 7 and 18 are expected to have working mothers. (National Institute for Child Health and Human Development [NICHD], 1986; Marx, 1987)

The median weekly cost for child care in 1985 was $38.00. The proportion of total family income consumed by child care costs is 10% for non-poor families and 20% for families in poverty. Estimated annual child care expenditures by U.S. families are about $11.5 billion. (U.S. Census Bureau, 1987; Hofferth, 1987 [in preparation])

HEALTH CARE COSTS FOR FAMILIES INCREASE, ACCESS BECOMES MORE DIFFICULT

Today, health care costs consume 10.9% of the total U.S. Gross National Product. By the year 2000, this proportion will grow to 15%. (Department of Health and Human Services, Health care financing Administration [HCFA], 1987)

Health Care expenditures are projected to triple between 1986 and the year 2000, from an average of $1,837 per person to $5,557. (HCFA, 1987)

Costs for health care continue to outpace increases in personal income. Personal health care expenditures as a fraction of personal income grew from 11.2% in 1985 to 11.6% in 1986. If personal health care costs had grown at the same rate as personal income, consumers would have had $13.6 billion more to spend on other goods and services. (HCFA, 1987)

An estimated 38.8 million Americans report they need health care but have trouble obtaining it. For almost 19 million Americans, the barrier to access is financial. (Robert Wood Johnson Foundation, 1987)

In 1986, 36.9 million Americans had no private or public health care insurance, a 31% increase over 1980. (U.S. Census Bureau, Current Population Survey, 1980 and 1986)

The fastest growing population without health insurance is children of working parents with employer-based health coverage. (Employee Benefits Research Institute, [EBRI], 1987)

In 1985, nearly half of uninsured children age 18 or under lived in single parent, usually female headed, families. ([EBRI], 1987)

One-third of the U.S. population with family incomes below the poverty level are uninsured. One-fourth of the population with family incomes between 100 percent and 150 percent of the poverty line are uninsured. (Sulvetta and Swartz, 1986)

EDUCATION COSTS OUTPACE INFLATION

During the 1970's, college tuition for all institutions grew at an average annual rate of 6.6%, a lower rate than consumer prices, 7.8%. In the 1980's college tuitions have grown by 9.8%, twice the rate of inflation. (American Council on Education, 1987)

College tuition costs are expected to rise by 6% per year in public institution and by 7% per year in independent institutions in 1987-1988 and in 1988-89. Increases in inflation during this period are projected to be no higher than 4.5%. (Henderson, 1986)

Between 1978 and 1983, college participation rates declined among students with family incomes under $20,000 (in constant 1983 dollars), while participation increased for students from families with incomes over $30,000. (Lee, 1986)

The average total award (grants, loans and work study) per full-time equivalent student for all Department of Education programs declined from $2,200 in 1975-76 to $1,800 in 1983-84 (after adjusting for inflation). (The College Board, 1984)

I would now like to recognize the ranking minority member, Congressman Coats.

Mr. COATS. Thank you, Mr. Chairman.

I am pleased to be here this morning to hear testimony with you and others on this panel about the future of American families. This is an important hearing as we will be looking at problems which we and our families and our children's families may some day have to face.

We have a good list of witnesses. I would hope that they would not only focus on the nature of the problems that we face but also on the possible solutions and ways that we can cope and deal with these problems.

We need to look at viable alternatives to provide for our children's education in the future. We need to look at health care services and what kind of options and alternatives might be available there. We need to look at how young people can purchase a home, can participate in raising their family in the traditional way in which we have looked at that question in this country and we need to look at the whole question of employment and job training. What kind of skills are going to be needed for the jobs of the future? Can our educational system adequately cope with the changes that are taking place in this economy and the pressures that will bear on them in terms of preparing our young people for employment in the future.

To what extent should the private sector be involved, and what participation can they have in meeting these particular types of problems? It is these types of questions that I hope we can address today. It would be easy for us to conclude that many of these problems seem insurmountable to the average family, but this provides little help or comfort to the families facing these issues. We need to learn more about how to unleash the creativity of the American people and our economy to solve the problems that lie ahead.

I want to thank you for scheduling this important hearing, and I look forward to hearing the testimony of our witnesses. As usual, I would ask unanimous consent that the record be left open for two weeks so that Members have an opportunity to submit their statements and questions to the witnesses.

[Prepared statement of Hon. Dan Coats follows:]

PREPARED STATEMENT OF HON. DAN COATS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA, AND RANKING MINORITY MEMBER

Mr. Chairman, as the Ranking Minority Member of the Select Committee on Children, Youth and Families I am pleased to be here this morning to hear testimony about the future of American families. This is an important hearing as we will be looking at problems which we, our families, and our children's families may someday face.

I would hope that the witnesses before us would not only focus on the overwhelming nature of the problems but instead on how we can cope. What alternatives are there for families? Is the Dusquesne Tuition Prepurchase Plan a viable alternative to rising tuition costs? Are HMOs the wave of the future in medical financing? How will young couples with children be able to purchase a first home? What type of job training will young people need in order to secure employment? Can the current educational system competently prepare our youth for college or employment? To what extent can this be done by families and the private sector and to what extent does government need to be involved?

It is these types of questions that I hope are addressed here today. It would be easy for us to conclude that many of these problems seem insurmountable to the average family, but this provides little help or comfort to families facing these issues. We need to learn more about how to unleash the creativity of the American people and our economy to solve these potential problems.

I want to thank Chairman Miller for scheduling this important hearing and I'm looking forward to hearing the testimony. I would also ask that, as usual, the record be left open for two weeks.

"AMERICAN FAMILIES IN TOMORROW'S ECONOMY"—GENERAL OVERVIEW, MINORITY FACT SHEET

The future of American families cannot be understood outside the most likely changes within American society as a whole.

Author John Naisbitt in his book Megatrends selected 10 major trends. He concluded that we are moving:

1. From an industrial society to an information society.
2. From forced technology to high tech/high touch.
3. From a national to a world economy.
4. From short-term strategies to long-term strategies.
5. From centralization to decentralization.
6. From institutional to self-help.
7. From representative democracy to participatory democracy.
8. From hierarchies to networking.
9. From North to South (really southwest & Florida).
10. From either/or to multiple option.

The common link among these megatrends is the implied necessity of a more educated, flexible and responsible citizenry. Naisbitt called it "reclaiming America's traditional sense of self-reliance." (For example, information jobs, self-help, participatory democracy, networking, ability to select among multiple options.)

The number of jobs that are relatively unskilled but high income is already substantially reduced and futurists only predict the acceleration of this trend. Among the likely manifestations of these trends is some return to delayed gratification, not something that is currently part of most of younger Americans' make-up (Such as home ownership.).

There are also likely to be attempts to stop these trends, as occurs with every major shift. Governmental intervention—utilizing the power of a committed group to influence the political process—is the most likely way such attempts will occur. (For example, resistance to international trade, self-help rather than institutional help, geographical changes, declining industrial sector.) Trends may be slowed by long-term efforts to stop them only will create larger problems.

BASIC SOCIETAL TRENDS

Out of every 100 children born today: 12 will be born out of wedlock; 40 will be born to parents who divorce before child is 18; 5 will be born to parents who separate; 2 will be born to parents of whom one will die before the child reaches 18; and 41 will reach age 18 "normally" (Hodgkinson);

Two-thirds of poor children are white, but those children who stay in poverty for more than four years are heavily Black. (Hodgkinson)

Governmental support for the elderly has increased, but government spending for poor children has actually decreased during the last decade. (Hodgkinson)

Percentage of Americans living in each time zone: East—50; Central—30; Mountain—5; West—14.5. There has been a decline in the so-called "frost belt" versus the "sunbelt" but declines have been slowed. (Hodgkinson)

By 1995, most people will have moved into the 30-to-49 age group, enlarging it by 17.8 million, while the 20-to-29 group will lose 7.2 million people. The result will be a shortage of entry-level workers in the labor pool and higher starting pay for those who are available. (1995: Who Will Be Your Patients? Medical Economics, March 31, 1986, Arthur Owens)

Meanwhile, there will be about 200,000 fewer births in 1995 than in 1985. The number of children aged 1 to 5 will increase 3.7 percent by 1990, then decline, for a 10-year net gain of only 1.1 percent. The fastest population increase among children will be at the elementary-school level (ages 6 to 13). Their numbers are expected to grow by 3.4 million (12.7 percent) between 1985 and 1995. For all children under 18, the projected 10-year increase is 4.4 percent—only half that of the population at large—with the biggest drop among teenagers 15 to 19. (Owens)

Demographers tell us that by 1995 there will be only half as many people in the average household as in 1910. This results not so much from fewer children per family as from increasing numbers of childless couples, single parents, and people living alone. In 1982 (the lastest year for which data are available), one-parent families included 22 percent of all U.S. children under 18-up from 12 percent in 1970. the trend is expected to continue. (Owens)

Partly because of inflation, average income per U.S. household is expected to rise by 32 percent from 1985 to 1990, and by an additional 42 percent between 1990 and 1995—an overall gain of 88 percent in 10 years. Three out of five households in 1995—will have incomes of at least $35,000. (Owens)

HEALTH CARE: FACTS AND TRENDS

1. Health care facts—

Recent trends indicate that, by the year 2000, life expectancy will rise slightly, increasing (in the U.S.) from 69.5 years in 1978 to 72.4 years in 2000 for males and from 77.2 to 81.4 years for females. ("Drugs and Health in the Year 2000," The Futurist, August 1985, Clement Bezold)

Health Insurance Coverage—

Eight out of ten children under 18 were covered by some form of health insurance in 1984. Whereas more than 85% of children in two-parent families had health insurance coverage, only about two-thirds of those in single-parent families had coverage.

Children living with divorced mothers were less likely to have coverage than children living with never-married mothers; the children of never-married mothers were twice as likely to be covered by Medicaid as the children of divorced mothers. Thirteen percent of all children, and nearly half of those 32% of all children living in families below the poverty level, had no insurance of any kind.

2. Health care trends—

The hospital of the future will be transformed into the critical care hub of a dispersed network of similar clinical facilities, physician offices, and remote care sites that may stretch out as far as 200 miles (320 km) from the core facility, connected by air and ground critical care transport and integrated by clinical information and patient monitoring systems. ("The U.S. Health Care System in the Year 2000," Jeff C. Goldsmith, Ph.D., Dec. 26, 1986)

Another trend likely to continue for the balance of the century is the increasing acceptance of group practice. In 1969, only 40,000 U.S. physicians practiced in groups. By 1984, this number had reached more than 140,000. From 1980 to 1984, group practice appears to have absorbed almost three-fourths of the growth in physician supply in the United States. (Goldsmith)

An influential school of contemporary thinking holds that integrated systems of financing and providing health care, such as prepaid health care plans or health maintenance organizations (HMOs), will become the dominant health care financing vehicle in the United States. Current projection of HMO enrollment in the United States range as high as 90 to 120 million people by the early 1990s. (Goldsmith)

. . . about 700,000 MDs and DOs will be practicing in the year 2000—roughly 30% more than now. This requires an average annual increase of 10,000 physicians for the next fifteen years, little more than half the net annual increase of 18,000 physicians we have experienced in recent years. But the total population in the year 2000 will have risen less than 10%, perhaps to 260 million. ("American Medicine in the Year 2000," Medical World News, Jan. 1985)

. . . in terms of actual goods and services, third-party payers of all kinds will be spending relatively little more for medical care in the year 2000 than they are now. They will accomplish this by imposing arbitrarily low prices on providers and by substituting less expensive providers and sites of care delivery services (Medical World News)

The elderly (65 and over) will account for more than 13% of the total population by 1995, when there will be 33.9 million of them—5.3 million more than last year. Most will be women, and nearly half will be 75 or older. Because of the high incidence of chronic and disabling medical conditions among the aged, this disproportionate increase in their number will heighten the demand for medical services—especially nursing-home care. (Owens, Medical Economics)

Patients will be paying a smaller percentage of total health-care costs out of pocket in 1995, while Medicare, private health insurance carriers, and other third parties (except Medicaid) will be paying larger percentages. Physicians will receive the same proportion of the total pie as in 1985, but hospitals will get a smaller cut and nursing homes a larger one. Those conclusions were reached by a panel of health-care experts surveyed by the American College of Health Care Executives and the accounting firm of Arthur Andersen & Co. in 1984. Physicians' opinions were not solicited on this subject. (Owens)

How will the Medicare system change in the year 1990? Strong majorities of the Arthur Andersen & Co.—ACHCE panelists anticipate that the qualifying age will be higher, that coverage will be based on the patient's income level, that all beneficiaries will be covered for catastrophic illness, and that they'll be paying higher premiums, deductibles, and coinsurance. It's also the panel's consensus that assignment of benefits will be mandatory for physicians, and that a voucher system will be implemented. (Owens)

Naisbitt in his book Re-inventing the Corporation suggests the following methods to help keep health costs manageable: Build clinics; create HMO's; form groups of corporate health cost budget busters; join preferred provider organizations; and send emergencies to freestanding emergency centers.

EDUCATION: FACTS AND TRENDS

1. Education Facts—

All of America's 25 largest city school systems have "minority majorities" ("All One System: Demographics of Education, Kindergarten through Graduate School," The Institute for Educational Leadership Inc., Harold L. Hodgkinson, December 1985)

In 1900 only about 10% of youth graduate from high school. By 1950, 25% of black youth and 56% of whites graduated. By 1978, 75% of black youth and 85% of white youth graduated. "Since 1980, the national figure for all students has declined from 76% high school graduation to 73%. The unintended fall-out from the spate of 'excellence' state reforms will undoubtedly cut the number even further." (Hodgkinson)

In 1947 only about 28% of youth attended college. Today more than 50% will attend some form of post-secondary education. (Hodgkinson)

29% more Blacks graduated from high school in 1982 than in 1975 but Black college enrollment dropped 11%. High school graduation rates for Hispanics increased 38% during 1975 to 1982, while Hispanic college enrollment declined 16%. (Hodgkinson)

Key Question: Should access be to some institution of higher learning or to the best institution for that particular student?

Examples of minority mixes:

Community colleges have a disproportionate enrollment of Blacks and Hispanics.

The 1984 entering freshman class at the University of California at Berkeley was only 56% white.

UCLA has become heavily non-white without lowering its admissions standards at all.

1985 class entering Harvard was 20% minority, and was selected from the top sixth of the applicant pool.

However, beyond community colleges and "blue chip" universities, there is a large group of institutions that haven't increased minority populations at all. (Hodgkinson)

The specificity of colleges may be lost as some institutions try to attract anyone who is warm and breathing to their opening class. (Hodgkinson)

The level of educational attainment among parents of school-aged children has been rising, with especially dramatic increases among blacks. The educational level of black parents still lags behind that of whites, however. Nearly 60% of Hispanic students have parents who have not completed high school.

PERCENTAGE OF STUDENTS WHOSE PARENT HAS 12 OR MORE YEARS OF EDUCATION

	Child's school level—	
	Elementary	High school
Total		
1970	62	59
1979	71	70
1985	78	76
Whites		
1970	66	63
1979	75	74
1985	80	78
Blacks		
1970	36	30
1979	51	45
1985	67	63
Hispanics		
1985	41	41

2. Education trends—

Lifelong education is here today for about half of the American adult population—ready or not. At the moment, ten million workers are taking 18 million courses a year, most of them offered "in house" by the company's own education staff. This is a minimum figure. (Hodgkinson)

It is essential to bring quality and accountability back into education, but it is not enough. We must go further and introduce the new skills that are appropriate to the information society, skills that are equally valuable in the classroom and in the corporation—thinking, learning, and creating. (Naisbitt)

A sampling of corporate responses to these needs:

a. ¾ of US large corporations teach remedial education and basic skills.

b. Adopt-a-school, computer donations, corporate literacy activists.

c. Closing the math-science gap thru cooperative use of engineers, computer scientists and other technical people.

d. "Give us literate, skilled graduates and we'll give them jobs. "That is the deal some 200 Boston-area businesses have struck with the Boston Public School System. (Called the Boston Compact, it aims to break that vicious circle with the goal of offering every Boston high school graduate with minimum competency in reading and math a guaranteed job with a Boston area employer.)

e. Corporations spend nearly $60 billion a year on education and training, according to the report, about the same amount spent on education in the nation's four-year colleges and universities. About 8 million people are learning within corporations—about the same number as are enrolled in institutions of higher learning. (Naisbitt, Re-inventing the Corporation)

In a recent study, data concluded that the educational system has three important problems and a potential fourth problem that affect its ability to respond to changes in training requirements, they are as follows:

1. In the comprehensive school system vocational students are dispersed across high schools, precluding the economies of scale required to justify the costs of the sophisticated, modern equipment that vocational high schools can realize;

2. The post-secondary system is facing a period of unprecedented enrollment decline that promises to slow its response to change;

3. Quality was identified as a potential problem in the educational system. Institutions face a much older post-secondary faculty by the year 2000, a development that will raise the average cost of faculty salaries and make it difficult to introduce the new fields and courses that may be needed to meet technologically-generated changes in skill requirements.

4. Since the military-like compensation structures of post-secondary schools limit their ability to compete for the scarce labor required to teach these new skills, there has been concern that the post-secondary schools will become training bottlenecks for the skills most needed to integrate technological advances into the economy. (Careers and Opportunities 1987, Black Enterprise, February 1987, Ed Newton)

Median family income is a broad measure that includes many families who will not be affected by college prices, such as the elderly, or young families with small children. The price of college education is usually of most direct concern to families with a dependent child (or children) around age 18. This distinction is crucial. Families with college age children are often in their peak earning years and thus have higher incomes, and experience faster income growth, than all families. In 1985, for example, median family income for all families was about $22,415. For those with a child in college it was $37,355. Between 1973 and 1986, median family income rose 122% for all families, 132% for families with a dependent age 18–19 not in college, and 144% for families with a dependent child in college. In short, the benchmark that one uses to measure family income makes a substantial difference. (The Rising Cost of College: The Conventional Wisdom is More Complicated Than You Think, Terry Hartle, American Enterprise Institute)

A RECENT INNOVATIVE APPROACH TO FUNDING COLLEGE

"Prepaid Tuition Plans: Almost every state has discussed some way to allow parents to pay for their children's college tuition years before the children actually enroll. As of last week, governors in four states—Indiana, Michigan, Tennessee and Wyoming—had signed such plans. Many other states were studying them, although some, including Michigan and Tennessee, were waiting for the Internal Revenue Service to rule on whether parents would have to pay taxes on the entire value of the certificate when redeemed or only on the amount they paid." (Legislatures' Financial Support for Colleges, Limited by Economic Conditions in States, Carolyn J. Mooney)

The Original Idea

"The Duquesne Plan," Duquesne University, Pittsburgh

"The current rate of tuition inflation and the low rate of savings by parents for future college costs is fueling interest in tuition prepurchase plans that guarantee the price of college years in advance."

"First, the pool of prepaid tuition will, presumably, be large enough that the fund managers will have access to professional investment advice. In addition, professional management will be able to diversify the investments in ways that the individual investor never could."

"Second, the fund managers will, or at least should, be able to take a long-range investment perspective. This not only adds potential strength to their investment strategies but reduces the risks of short-term economic and market fluctuations. Individual families, on the other hand, have relatively short planning horizons and may be trying to save for college at a time when financial markets are falling."

"The final advantage is the possibility of a tax savings. When parents invest, all 'income' generated by the investment is taxed, regardless of whether this income is real or simply compensation for inflation. If families purchase a commodity like tuition, it is possible to structure the sale so that they will not be taxed when the price changes. The tentative nature of this advantage must be emphasized as a plan's tax status will, obviously, be determined by many factors."

"The most obvious participants are middle and upper-middle income families who value education and have resources to invest. The children of these families are very likely to attend college with or without these savings incentives. But if a tuition plan helps a family to save more effectively, the set of institutions from which they may choose can expand. Furthermore, if the tuition is sold in installments, and possibly through payroll deductions, the plans may reach lower-middle income families." (Tuition Prepurchase Plans, Why They're Needed and What's At Stake, Richard E. Andersen)

CHILD CARE: FACTS AND TRENDS

1. Child care facts—

Between 1980 and 1985 the number of women with two jobs or more rose by almost 40% to 2.2 million. It jumped from 3.8% to 4.7% of women working. Over a decade in a half, the rate has jumped from 2.2% to 4.7%. Moonlighting for men had undergone a long-term decline but stabilized during the 1970's at around 6%, and is now down to 5.9%. ("Moonlighting by women jumped to record highs," by John F. Stinson; published in Monthly Labor Review; Nov. 1986.)

The demand for child care services will grow, fueled by a substantial increase in the population of young children, especially those under six years old. Thanks to the maturation of the "baby boom," the population under six will rise by 3.3 million during this decade, from 19.6 million in 1980 to 22.9 million in 1990 (a 17% increase). (Congressional Budget Office, Human Resources and Community Development Division, Demographic and Social Trends: Implications for Federal Support of Dependent-Care Services for Children and the Elderly, June 15, 1983.)

The most important trend affecting the increase in demand for child care services is not population growth, but the anticipated increase in the proportion of children living with only one parent, usually the mother. The population of children under 10 from single parent households is expected to rise by 48% between 1980 and 1990, from 6 million to 8.9 million. This increase of roughly 3 million children means that nearly 1 in 4 children under 10 will live in a single parent household at the end of this decade. (CBO)

The Congressional Budget Office report indicates that the trend toward increased labor force participation by single mothers found during the 1970's is expected to continue through this decade. The percentage of single mothers in the labor force with children under six was well over half in 1980 (59%), and is projected to rise to 63% by 1990. (CBO)

An even more dramatic increase in the percentage of working mothers with very young children is expected in households where the father is present. The 1990's will be the first decade to begin with a majority of these mothers (55%) in the labor force. This represents a percentage increase of over 80% in the 20 years since 1970, when fewer than one-third of all married mothers of children under six worked. (CBO)

The need for affordable child care will be increased with these developments. However, a recent report from the Bureau of the Census indicates that the current supply of affordable day care for a significant number of mothers is inadequate. The report estimates that 26% of mothers of children under 6 not now working (1.7 million women) would seek employment if affordable child care were available. (CBO)

Children with mothers who work full time, full year—

Of all children under 18 living with their mothers, 27% had mothers who worked full time, full year during 1984; 37% had mothers working less than full time, full year; and 33% had mothers who were not in the labor force for the entire year. Children in two-parent families were less likely to have a mother who worked full time, full year (25%) than children in mother-only families (32%). Additionally, younger children were less likely to have mothers who worked full time, full year than older children, with only 1 in 5 preschool children having a mother who worked full time all year in 1984. Hispanic children were the most likely to have a mother who was not in the labor force. Black children were the most likely to have a mother who worked full time, throughout the year, while white children were the most likely to have a mother who was employed less than full time, full year. (Analysis by Child Trends, Inc. of public use data from the Census Bureau's March 1985 Current Population Survey. Tabulations produced by Technical Support Staff, Office of the Assistant Secretary for Planning and Evaluation, U.S. Dept. of Health and Human Services.)

Women will account for the majority of labor-force growth from 1984 to 1995, the Labor Department projects. In 1970, only half the women between the ages of 25 and 44 were in the work force. By 1995, more than 80% of women in that age range are expected to be working. (Work & The Family: A Changing Dynamic, A BNA Special Report, The Bureau of National Affairs, 1986)

. . . there has been a dramatic growth of female-headed households with young children: 105% increase, from 2.85 million in 1970 to 5.86 million in 1982. This generation affirmed the most profound change in family formation over the past three decades: the emergence of the single-parent family as a phenomenon so well established and pervasive that it is predicted that by 1990, one-half of all Americans will spend part of their childhood living with only one parent." (The Fate of Baby Boomers & Their Children, Esther Wattenberg, 1986)

2. Child care trends—

The generation of workers graduating from college today may find themselves in a better position. They belong to the "baby-bust" generation, and their small numbers, says Harvard Economist David Bloom, will force employers to be creative in searching for labor. Child care arrangements, he says, will be the "fringe benefits of the 1990's. (TIME Magazine, The Child-Care Dilemma, June 22, 1987)

The economics of the situation, if nothing else, will provoke a change in the attitude of business, just as the politics of the situation is changing the attitude of government. In order to attract the necessary women—and men—employers are going to have to help them find ways to cope more easily with their duties as parents. (TIME Magazine)

Child care arrangements—

Children under 5 years with employed mothers are more likely to be cared for outside their own home in recent years, particularly if their mothers work full time. Much of the increase in out-of-home care has been due to increases in the use of group care or of care provided in the home of non-relatives.

HOUSING: FACTS AND TRENDS

1. Housing facts.—Residence in owned housing, rented housing, and publicly subsidized housing:

A 65% majority of U.S. children under 18 live in housing that is owned by their parents or another household member. However, whereas nearly 70% of white children live in owned housing, approximately 60% of both black and Hispanic children live in rented housing. One in six black children and one in eighteen Hispanic children lives in publicly subsidized housing. A majority of the 2.4 million children living in public housing are black or Hispanic. White children make up 88% of the 39.4 million children who live in housing owned by a parent or other household member. (CFY 1987 Trends Report)

The future of housing demand will be shaped most by the future of the baby boom generation—those born from 1947 through 1964. By 1995 the entire generation will be in the traditionally peak-earning ages of 35 to 54. (Demographics and Housing in America, Population Bulletin, January 1986, George Sternlieb and James Hughes)

Gains in numbers of households averaged 11.7 million a year between 1970 and 1980 but slipped to barely one million a year from 1980 to 1983 with the recession. From 1983 to 1990 households should increase by 1.3 million a year, on average. From 1990 to 1995, household growth is projected to retreat to one million a year. (Sternlieb and Hughes)

Between 1983 and 1990, owners are projected to account for over 72% of household growth and that share is projected to surge to over 83% in the first half of the 1990's. With overall household growth slowing, however, the increase in ownership will boost the proportion of households that own their homes only to 66.6% by 1995. (Sternlieb and Hughes)

Rental apartments face an even more drastic dropoff in demand. The middle-aging of the baby boom generation in the force behind the rise in homeownership and the drop in the demand for rental units. (Sternlieb and Hughes)

2. Housing trends—

As America becomes increasingly middle-aged, married-couple family households should make a marked comeback, even if not enough to resurrect the family norm of the 1950's. (Sternlieb and Hughes)

The explosive growth of female-headed households should abate. (Sternlieb and Hughes)

America's home of choice is the detached, single-family house. The authors see nothing occurring in the next decade or so that should dampen Americans' desire for the best, most spacious, detached single-family home they can afford. (Sternlieb and Hughes)

Renewed Federal housing aid for the poor is unlikely for the foreseeable future. As a result, rapidly increasing numbers of people are homeless, doubling up in public housing projects, or paying more than half their incomes for rent. Compounding the problem is a general decline in rental housing as units are converted into cooperatives and condominiums, which people on low incomes cannot afford. Most affected by this is America's growing minority population of blacks and Hispanics. This could result in more class cleavage between those who are desperate to acquire adequate shelter and those who can afford to view housing as much more than mere shelter. In the absence of Federal efforts, housing support for the poor is increasingly local. (Sternlieb and Hughes)

If the housing needs of the disadvantaged are not met by new construction or substantial rehabilitation, the response of the housing market may well be much more subdivision of existing housing. The quality of housing if this were the case would be bound to deteriorate. (Sternlieb and Hughes)

More fertile with income than with offspring, the maturing baby generation will edge the housing market further upscale. They will have the purchasing power that could bolster a housing industry that faces an inevitable decline in the numbers of households added each year. (Sternlieb and Hughes)

ECONOMY AND LABOR: FACTS AND TRENDS

1. Economic and Labor Facts—Council of economic advisors (CEA):

9% of the jobs during the present expansion are full-time jobs.

Over 60% of the increase in employment has occurred in the highest paying occupations, with median weekly full-time earnings in excess of $390 (or more then $20,000 on an annual basis). To be specific: managerial and professional positions; technical professionals; supervisors and proprietors (sales establishment); precision production; and craft and repair.

Only 12% of the increase in employment has occurred in the lowest-paying, low-skill service occupations.

The great majority of individuals who work part-time want to work part-time: About 19% of persons at work are part-time employees, and over 70% of these are voluntary part-time workers.

Although still high by historical standards, the share of involuntary part-time workers (i.e., those who'd prefer to be full-time) has fallen since 1982 and is now about 5% of the people at work.

Unemployment in April (1987) fell to 6.3%, more than anyone had anticipated.

For every manufacturing job "lost" since 1979, at least 5 other jobs were created, and

Most were anything but menial and low-paying.

America's middle class—

Over 80% of Americans continue to believe in the American dream of a better economic life . . . And why not? Real per-capital disposable income from 1980–86 has risen 14%, or about a 15% faster rate than in the 12.2% rise in the previous six years (1974–80). Warren Brookes, Human Events 5/2/87.

The sky is not falling on America's middle class. For one thing, the movement toward services is a long-term trend that the U.S. Shares with other nations, including Japan. For another, the service sector is not made up solely of low-paid jobs, nor does its growth come at the expense of manufacturing, which actually is doing quite well. And finally there is no evidence at all that the middle class is eroding. The fact that the middle three-fifths of the population, ranked by income, receive about 52% of total national income, a proportion that has been virtually unchanged since the Census Bureau began keeping such statistics in 1974. A similar analysis of annual earnings by the Bureau of Labor Statistics indicates that the middle third of workers, ranked by earnings, make up almost exactly the same percentage of total employment that they did ten years ago. In short, despite anecdotal evidence to the contrary, there is nothing in the aggregate data to indicate that recent changes in the economy, such as a shift from manufacturing to services, are eroding the middle class." Bruce Bartlett and E.L. Wiegand Fellow, "The Chicken Little Theory of the Vanishing Middle Class," The Backgrounder, Heritage Foundation, April 13, 1987.

Between 1970 and 1984, for example, New York lost 492,000 jobs previously filled by high-school dropouts, and gained 239,000 requiring some college. Philadelphia lost 172,000 jobs previously held by dropouts and gained 39,000 for college graduates. (Andersen)

In 1985 in the central cities of metropolitan areas of the Northeast, 43% of the black males ages 16 to 64 years old had not completed high school (29% for whites). (Andersen)

Nearly a million new jobs were created in restaurants and similar establishments between 1974 and 1984, and most were outside the central cities. (Andersen)

Metropolitan transportation systems make it difficult to travel from the city to the suburbs at affordable prices and in a reasonable amount of time. (Andersen)

Takeovers result in massive reductions in force. Greatest impacts are in service departments duplicated by merger such as law, finance, and marketing. Has hit upwardly mobile minorities hard in part because of less seniority and less affirmative action. Percent of blacks in professional and technical jobs actually shrank between 1980 and 1985 from 8.9% to 6.7% (percent in managerial and administrative did rise from 5.2% to 5.3%). (Newton)

Currently, adult training and education programs are concentrated among those who are already doing relatively well in the labor market. Participation rates in adult education are twice as high in white collar jobs as in blue collar jobs. Also another survey found that 61% of professional workers took training to improve skills on their current job compared with under 25% for most blue collar workers. (Bureau of National Affairs)

Fastest Growing Occupations [1]*—1984-95*

	Percent
Paralegal personnel	97.5
Computer programmers	71.7
Electronic data processing	68.7
Medical assistants	62.0
Data processing equipment repair	56.2
Elect and electronic engineers	52.8
Elect and electronic technicians	50.7
Computer operators	46.1
Peripheral EDP equipment operators	45.0
Travel agents	43.9
Physical therapists	42.2
Physician assistants	403.
Financial services sales	39.1

[1] (Chapter 2. Tomorrow's Jobs—received from CRS, no other information given.)

Fastest Declining Occupations [1]*—1984-95*

	Percent
Stenographers	−40.3
Shoe sewing machine operators	−31.5
Railroad brake, signal operators	−26.4
Railcar repairers	−22.3
Furnace, kiln operators	−20.9
Shoe and leather workers/prec	−18.6
Private household workers	−18.3
Telephone installers/repair	−17.4
Garment sewing workers	−16.7
Textile machine operators	−15.7
Machinery maintenance mechanics	−14.8
Statistical clerks	−12.7
Industrial truck operators	−11.9
Central office workers	−11.5
Farm workers	−11.2
College faculty	−10.6

[1] (Chapter 2.)

2. Economic and labor trends—Major labor force demographic trends:

The population and labor force will continue to grow but more slowly than in recent decades.

More women will enter the workforce, but the rate of increase will taper off.

The number of young workers will decline, but the proportion of the youth labor force that is minority will increase.

The number of older persons at work will continue to decline, in part due to earlier retirements.

Together, women, minorities and immigrants will account for the vast bulk of net additions to the labor force in the coming decades.

Bureau of Labor Statistics (BLS) projections indicate that prime age workers will constitute a larger share of the labor force in the years ahead, and the average age of the workforce will rise.

The slower rate of labor force growth suggests tighter labor markets are possible and this offers an opportunity to move "at-risk" youth into the mainstream.

Tighter labor markets should foster greater use of the abilities of minorities, women and the handicapped and a narrowing of occupational and earnings gaps.

A more mature workforce implies greater experience, stability, reliability and productivity. (Statement of William E. Brock, Secretary of Labor to Joint Economic Subcommittee on Economic Resources, published by The Bureau of National Affairs, July 1986)

Alternative Work Schedules—

In Wisconsin Project JOIN (Job Options and Innovations) undertook a two-and-a-half year study of the effects of restructing up to 25 full-time civil service positions in order to make them available on a less than full-time basis. The project, which emphasized the redesign of professional and technical positions, proved so successful that 56 positions, involving 115 employees had been voluntarily redesigned by the time it was concluded. ("Changing times: The use of reduced work time options in the United States," by Barney Olmsted, co-director of New Ways to Work of San Francisco: from International Labor Review, Vol. 122 No. 4, July–August 1983)

Multiple jobholders numbered 5.7 million in May of 1985; Saturday work was routine for one-fourth of all workers; 1 in 8 reported they usually worked on Sunday; one-sixth of the full-time workers and one-half the part-time workers work outside typical daylight hours; home-based work for at least 8 hours a week was reported by over 8 million workers; flextime or other schedules enabling workers to vary the start and end of workday was available to 12% of the wage and salary workers with full-time jobs; a preference for a longer workweek (and thus more money) was expressed by ¼ of all the workers with fewer than ⅒ saying they would prefer fewer hours (and less money). ("Work schedules of Americans: an overview of new findings," by Paul O. Flaim; published in Monthly Labor Review; November 1986.

Flexible staffing is one of the more important ways US industry is reordering its methods in response to demands for greater efficiency and lower costs." Lone Rangers—outside contractees—now account for 25% of the American work force (up from 10% a decade ago) and 60% of the net new jobs created since 1974. Lone Rangers increase productivity. Even if the cost per job is higher, the cost per job done is smaller. ("Hi ho, Silver" by Susan Lee and Stuart Flack, Forbes, March 9, 1987)

Example of impact on the Forbes 500 companies: From 1981 to 1986 Bankers Trust cut its employees by 14% while sales went up 27%. It is not just office temporaries. For example, companies like Litton, the big defense contractor, calls up "body shops" for personnel. 'We have a constant need for engineers, but it can't be filled by taking on permanent workers because our needs are very specific—for instance, a specific skill in software that is not generic to an engineer. ("Hi ho, silver")

How do the free-lancers themselves feel?" Some may yearn for the security of a big company payroll, but most do not. An increasing number prefer the flexibility and freedom of the free-lance life. It makes them feel like the Lone Ranger, rather than just a cog . . . in a machine. ("Hi ho, Silver")

Down-sides of part-time/flextime/free-lancers: 70% of part-timers have no employer-provided retirement plan, and 42% have no health insurance ("The Disposable Employee Is Becoming a Fact of Corporate Life," Business Week, December 15, 1986)

Theme: Problem of the "dual labor market."

Urban economic expansion is creating new jobs, but growing numbers of minorities and the disadvantaged are unable to fill them. (1) require skills that many do not have and (2) suburban jobs can't be filled by city residents because regional transportation systems are inadequate ("Education: Key to Minorities Gaining Jobs," by Bernard E. Andersen, Black Enterprise, February 1987).

Manufacturing sector is declining but new growth in service jobs; however, service jobs require communication and computational skills. High-school dropouts and youth with few basic academic skills cannot meet the needs of employers in the new information-based urban job market. (Andersen)

Key Future Labor Issues—

1. Making workplace literacy a national objective.
2. Improving the nation's pension system—currently most are based upon long-term service which discourages flexibility and encourages employers to discriminate against older workers;
3. Enabling women to participate fully in the economy.
4. Encouraging individuals and employers to invest more in education and training.
5. Promoting flexibility among unemployed workers.
6. Review of employment standards.
7. Integrating minority and disadvantaged workers into the work force.

("Work Force 2000" paper of Roger D. Semerad, Assistant Secretary of Labor for Employment and Training Administration).

In Re-inventing the Corporation by John Naisbitt and Patricia Arburdene, a list of 10 ways that companies will be adjusting to the future included the following:

1. The companies that create the most nourishing environments for personal growth will attract the most talented people.

2. Inside the corporation, the manager's new role will be to cultivate and maintain a nourishing environment for personal growth.
3. Compensation systems that reward performance and innovation are transforming employees into stockholders.
4. We are shifting from hired labor to contract labor, which is part of a larger trend of contracting out for a variety of services.
5. The top-down authoritarian management style is yielding to a networking style of management, where people learn form one another horizontally, where everyone is a resource for everyone else, and where each person gets support and assistance from many different directions.
6. Many companies are re-inventing themselves as confederations of entrepreneurs, operating under the main tent of the corporation.
7. In the re-invented corporation, quality will be paramount.
8. Intuition is gaining a new respectability in the corporate world, which has been run by numbers for so long.
9. Large companies are discovering that to compete in a changing marketplace, they must adopt many of the values of small business.
10. In the information society. we are shifting from infrastructure to quality of life.

Chairman **MILLER**. Without objection, that will be done.

Our first panel this morning will be made up of Dr. Frank Levy, who is a professor of public administration, the University of Maryland, and a Guggenheim fellow at the Brookings Institution of Economic Studies in Washington, D.C.; Bruce Bartlett, who is a senior fellow from the Heritage Foundation here in Washington; and Cathy Schoen, who is a research economist representing the Service Employees International Union.

Come forward, and welcome to the committee. We will take your testimony in the order in which I called your names, and your prepared statements and supporting documents will be placed in the record in their entirety. You may proceed in the manner in which you are most comfortable.

We will start with you, Dr. Levy.

STATEMENT OF FRANK LEVY, PROFESSOR, SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF MARYLAND, GUGGENHEIM FELLOW, ECONOMIC STUDIES, BROOKINGS INSTITUTION, WASHINGTON, DC

Mr. **LEVY**. Thank you, Mr. Chairman.

My name is Frank Levy, and I am an economist at the University of Maryland School of Public Affairs. I was asked by the committee to review recent trends in the economic status of children, and the best way to do that, I think, is to lay out before the committee two quite different statistics.

Nineteen seventy-three, as the committee knows, was the year of the first OPEC oil price increase, and if you look at per capita disposable income between 1973 and the mid-1980's, it has risen by about 15 percent, which is as much as it had risen in the 1950's. So that statistic, by itself, suggests that the 1970's were really not so bad a period after all

On the other hand, if you look at the rate of child poverty, that over the same period has grown from 14 percent to 21 percent, and, looking at that statistic, it suggests that the 1970's were really quite bad. So the question is, how do you get a picture which, on the one hand, explains what is going on with per capita income increasing at the same time that poverty is increasing?

One simple way you could think about reconciling them is if there had been some enormous increase in income and equality, but that really has not happened. At the end of my prepared statement, I include statistics on the distribution of family income. There has been some modest increase in equality but not really very much. So that really is no explanation.

So what I would like to do is give you an explanation of really what has happened over the last 15 years to reconcile these two numbers.

The first point is that the 1970's really were very bad, the period after 1973, not so much in terms of income per person—that is to say, per man, woman, and child—but in terms of income per worker. The simplest way of expressing this is to take a look at men as they pass from age 40 to 50. If you look in the 1950's or the 1960's, a man as he aged from 40 to 50 typically had about a 30 percent increase in real purchasing power income. That wasn't so much because he was gaining on younger workers; it is just that wages were going up throughout the whole economy. On the other hand, if you looked at what happened to men who were 40 in 1973, over the next 10 years, they saw their incomes decline by about 14 percent.

There is no mystery to those numbers. The first oil price increase really took a big piece of purchasing power out of the economy, then we entered a period of very, very low productivity growth, so we were very slow to recoup that first oil price increase loss. We just about get back to 1973 wage levels in 1979, and then we have the second oil price increase, and we go through that cycle all over again.

In particular, what I am not talking about and what I think we should not be too concerned about is this difference between manufacturing jobs and service jobs. The kinds of wage declines that I am discussing are declines that affected people in all industries, and it was just a simple fact of the cost of living going up by 9 percent and you only getting a 4 percent raise, things like that, that caused a decrease in real earnings.

The question then is, with these declining wages, how did you get rising per capita income, and the answer is that a greater, and greater, and greater proportion of the whole population went to work. In the early 1970's, about 40 percent of all citizens were working. Today, about 50 percent of all citizens are working, not aged 16, I'm talking about age zero up to age 100. Women went to work in large numbers, the large baby boom cohorts turned 21 and began their careers, and when you compare these Baby Boomers to their earlier brothers and sisters, they married much later and they had very small families.

What that allowed you to do was to allow income per capita to keep rising even though income per worker wasn't doing anything because more and more and more of the population went to work. But it should be clear, those kinds of adjustments were not available to all families. A family headed by a single woman couldn't very well put a second serious earner into the work force to boost family income. A two-parent family that was displaced in the 1980–82 recession had a lot of trouble just keeping income even, forget about talking about income increasing, and those kinds of families are where more children in poverty came from.

Between 1973 and 1984, the number of children in poverty increased by about 3.5 million, or by about one-third. About half of that increase was single-parent families, the other half was two-parent families, mostly two-parent families hurt by the deep recession of the early 1980's.

The kind of story that that describes, some families managing to hang on and other families really falling down quite a bit, suggests that income equality increased a lot. So let me just finish my testimony by saying, well, how does that square with this idea in the Census numbers that income and equality haven't changed?

The missing piece of the puzzle is that one thing that we did well on over the last ten years is take much better care of elderly families. Social Security was indexed, most wages were not; as more elderly retired, there was growing private pension coverage, and so what you had in the bottom of the income distribution was a kind of great flip-flop: The elderly move up from the bottom to the kind of lower middle, and the bottom is now much more occupied by single-parent families with children and two-parent families who have been hurt by the 1980–82 recession.

So income and equality among families with children has increased a lot, but when we look at Census statistics, which cover all families, those increases are offset by the rise of the elderly incomes.

Let me finish by saying that my point in describing these movements is not to pit the old against the young. To the contrary, we are all in this together. We are in an economy which, since World War II, has assumed that living standards for everyone would rise year after year like a kind of entitlement.

For the last 12 years, rising real wages, which was really the basis for this entitlement, have not been present, and in the resulting scramble for consumption, children on average have gotten the short end of the stick. But unless we begin to put our economic house in order, and deal with the Federal deficit, and do other policies like that, we shall all be feeling the short end of the stick soon enough, I think.

Thank you.

[Prepared statement of Frank Levy follows:]

PREPARED STATEMENT OF FRANK LEVY, PROFESSOR, SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF MARYLAND, GUGGENHEIM FELLOW, ECONOMIC STUDIES, BROOKINGS INSTITUTION, WASHINGTON, DC

My name is Frank Levy. I am an economist at the University of Maryland's School of Public Affairs. My testimony today on thg economic status of families with children is drawn from my book, Dollars and Dreams: The Changing American Income Distribution, which will be published later this month.[1]

I have been asked by the Committee to review the economic status of children over the last 15 years - both how it has changed and why it has changed. The best way to begin is to compare two, apparently contradictory economic statistics.

- The first statistic is disposable income per capita. 1973, as you know, was the year of the first major oil price increase. But between 1973 and 1984, disposable income per capita (adjusted for inflation) rose by 15%, as fast as it had grown in the booming Eisenhower 1950's. Taken by itself, this measure suggests the 1970's were a good economic period.

- The second statistic is the rate of poverty among children. Between 1973 and 1984, the proportion of all children in poverty rose from 14.2% to 21.0%. This rise in the poverty rate took place despite the increase in disposable income per capita. This statistic suggests the 1970's were quite a bad period.

We could reconcile these statistics if there had been an enormous increase in income inequality - that is, if all the income growth had taken place at the top of the distribution while the bottom became worse off. But at first glance, that has not happened. U.S. Census data shows that family income inequality did increased moderately during the 1970's but it is not much different today than it was in the late 1940's or any year in between. (see attached Table 1 and Figure 1). There is, however, an important qualification to these family inequality numbers to which I shall return in a moment.

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[1] Russell Sage Foundation/Basic Books

To unravel this puzzle, we need first to understand that the years after 1973 were indeed a bad period, not in terms of income per capita, but in terms of income per worker - i.e. in terms of wages. For example, in the economy of the 1950's and 1960's, a man passing from age 40 to age 50 saw his income increase by 25-30%. But men who were 40 in 1973 saw their incomes over the next ten years decline by about 10% (see attached Table 2). Family income traced a similar path. In 1947, it stood at $14,100 (in 1984 dollars). It then grew steadily, never going more than three years before setting a new record, until it stood at $28,200 in 1973. But it has remained below $28,200 in every year since 1973 despite the increase in two earner families. Today it stands at about $27,500 (see Figure 1).

There is no mystery to these wage and income declines. The problems began with the 1973-4 OPEC oil price increase and a significant income loss. Then came a sudden slowdown in the growth of worker productivity. Rising productivity - rising output per worker - is the ultimate source of rising real wages. When productivity grows slowly, real wages can only grow slowly. The income loss from the first oil price shock followed by slow-growing productivity meant that real wages did not come back up to their 1973 levels until 1979. Then the Iranian revolution and the second oil price increase began the cycle all over again. The result was more than a decade of moderate wage declines where we had become accustomed to rapid wage growth.

How could disposable income per capita grow if wages were declining? The first answer involves demographics. In the early 1970's, about 40% of the entire U.S. population was in the labor force. Today, nearly 50% of the entire U.S. population is in the labor force. This increasing work effort is the result of three trends:

-Women of all ages went to work in large numbers.

-The large, postwar baby-boom cohorts came of age and began their careers.

-Compared to earlier generations, these baby-boomers married late and had relatively few children.

Not even an economist would argue that these trends were all caused by the bad economy. The birth rate, for example, began to fall sharply in the early 1960's when times were still good. But the effect of the trends was to permit average living standards to keep rising despite stagnant wages: Income per capita (i.e. per man, woman, and child) could keep growing even though income per worker was modestly declining because an increasing proportion of the entire population went to work. In this way, the years after 1973 were really an inversion of the 1950's: then, income per per worker was grew by about 30% over the decade but income per capita was grew by 15% because we had all the little "capitas" of the baby-boom.

Beyond these demographic adjustments, we have also kept consumption standards rising by going deeply into debt. Both households and the federal government are carrying far more debt today than then did 15 years ago. At first glance, these two kinds of debts are quite different. But they are both devices to keep consumption growing in the face of declining wages. In particular, the federal budget deficit reflects the government's willingness to cut taxes without cutting expenditures. This puts more money in peoples' pockets - still another way to keep consumption growing - but we can do this only because other countries have been willing to lend us large amounts of money.

Through demographic and financial adjustments, then, we have kept per capita living standards growing despite stagnant wages. But the demographic adjustments, in particular, do not apply to all persons equally. A young single man or women can postpone marriage until they feel in a sufficiently strong financial position.[2] A young husband-wife family can postpone children in the same way. Many older husband-wife families could rely on two incomes rather than one to keep consumption growing. Each of these choices kept average income per capita income rising over time.

But not every family had these choices. A family with children headed by a single woman cannot put a second major earner into the labor force. A husband-wife family displaced by the 1980-82 recession has to scramble to keep its income from taking a significant fall. It is through these families that the number of poor children has grown.

Between 1973 and 1984, the number of children in poverty increased by 3.5 million or by about one-third. The increase was divided equally between children in female headed families and children in two-parent families. Had all other things been equal, the poverty rate for children would have risen to about 19%. But the low birth rates among young, middle income workers meant that these poor children were an even greater proportion of all children and so the proportion of children in poverty rose to 21% in 1984 (and about 20% today).

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[2] Such single persons are not included in the family income distribution but rather in a separate distribution for unrelated individuals.

This is a story, then, of a fairly rough economic period, lasting more than a decade During this period, some families with children have managed to do all right while others have taken a real tumble. Put in this way, it sounds like income inequality should be growing. Earlier, I said that Census income statistics show relatively constant income inequality, but that these statistics do not tell the whole story. The missing piece of the puzzle is the incomes of the elderly. Over the past 15 years, the country has done a much better job of taking care of the elderly than it used to do. Throughout the 1970's, Social Security benefits were indexed against inflation while most wages weren't. In addition, each successive cohort of retirees had a greater private pension covereage.

This led to a rearrangement at the bottom of the income distribution. The incomes of many elderly families rose modestly while the rest of the income sank around them. As a result, many elderly moved from the bottom of the distribution to the lower middle. Their vacated places at the bottom were taken by female headed families and two-parent families hurt by the 1980-82 recession. In short, income inequality among families with children did increase. But in Census statistics (which cover all families) this inequality is offset by the improving position of the elderly.

My point in describing these movements is not to pit the old against the young. To the contrary, we are all in this together. More precisely, we are in a country which, since World War II, has assumed that living standards would rise year after year like a kind of entitlement. For the last 12 years, rising real wages - the basis of this entitlement - have not been present. In the resulting scramble for consumption, children have gotten the short end of the stick. But unless we put our economic house in order, we shall all be feeling the short end of the stick soon enough.

Table 1
The Shape of the Family Income Distribution in the Post World War II Period

	Share of Total Family Income Going to Each Quintile		
	1st (poorest)	2nd-4th (combined)	5th (richest)
1949	5.0%	51.8%	42.7%
1959	4.9%	54.0%	41.1%
1969	5.6%	53.8%	40.6%
1979	5.2%	53.2%	41.7%
1984	4.7%	52.4%	42.9%

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, no. 151, table 12.

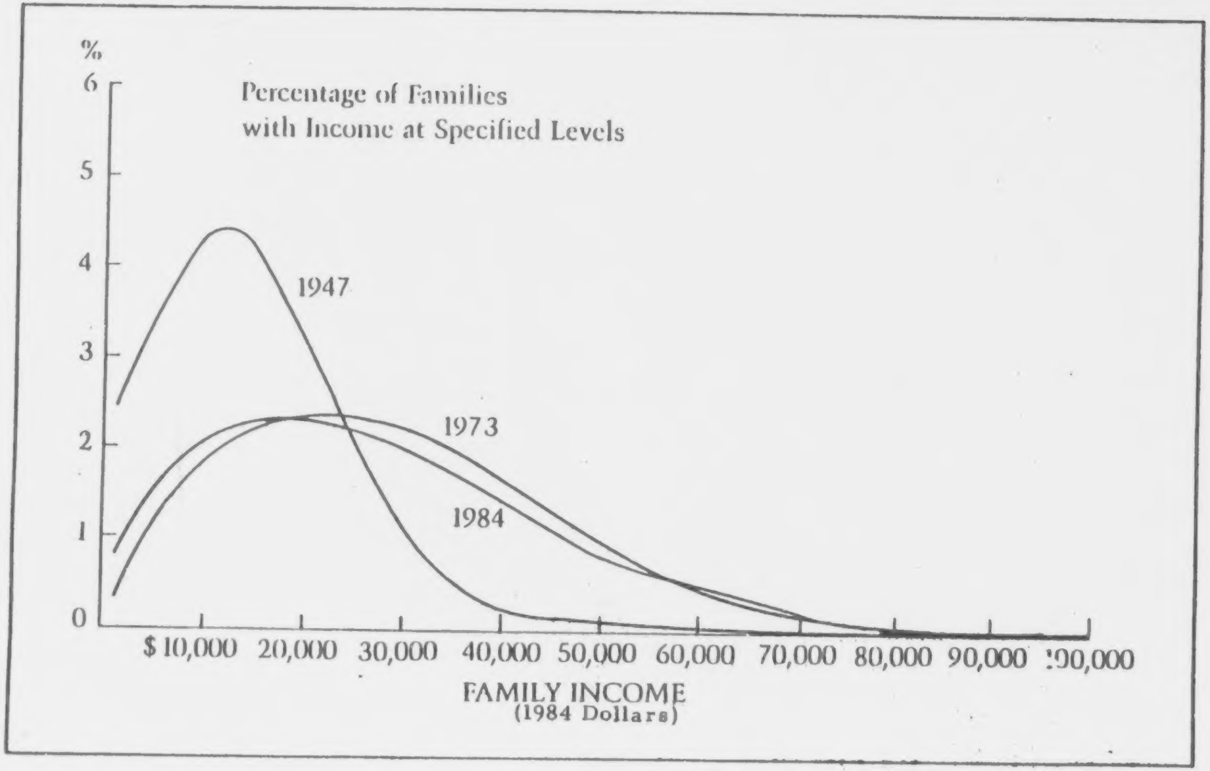
Table 2
The Income Growth of Men passing from age 40 to age 50 (1984 dollars)

Men who were 40 in	Income at 40	Income 10 years later	Change (%)
1953	$12,863	$19,779	+54%
1963	$21,153	$27,288	+29%
1973	$28,414	$24,097	-14%

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, various numbers. Incomes adjusted using the Consumer Price Index.

Tables adapted from: Frank Levy, Dollars and Dreams, The Changing American Income Distribution (Russell Sage Foundation/Basic Books, 1987)

Figure 1



Percentage of Families
with Income at Specified Levels

Chairman MILLER. Thank you.

Mr. Bartlett.

STATEMENT OF BRUCE R. BARTLETT, SENIOR FELLOW, HERITAGE FOUNDATION, WASHINGTON, DC

Mr. BARTLETT. Thank you, Mr. Chairman.

In my testimony, I tried to look at primarily the question that so often appears in the press of whether the middle class is declining and whether specifically the growth of a service sector contributes to this trend.

Basically, I see that the growth of the service sector, while a major trend in terms of employment, does not necessarily illustrate any downward trend in terms of manufacturing output. In particular, I think it demonstrates rising wealth in the economy rather than any kind of negative trend.

In my testimony, I point out that growth of the service sector in terms of employment is a very long-term trend. It goes back quite a long ways and basically began in the 1860's. I point out that services tend to rise as incomes and wealth rise because there seems to be a limit to the amount of goods that people can consume as their income rises. As Adam Smith noted, the ability to consume food is limited by the size of the stomach, and I point out that services as a share of total personal consumption expenditures has almost doubled since 1950.

The increase in services is also a function of the stock of goods that exist, so that, for example, if you buy an auto you have to also buy many years' worth of services to take care of that car. Also, it is an indication of increasing specialization in the economy.

One of the major things you are seeing, is that corporations which used to do a number of things in-house that would be considered services, such as, for example, data processing, have gotten rid of their in-house services and contracted them out of the company, so that in the statistics you have had a shift away from manufacturing towards services that is really illusory. Nothing has really changed in terms of the work that people are actually doing.

The trend towards services is an international trend. The growth in the service sector in Japan, for example, has been even more rapid than in the United States.

I look at the quality of service jobs, and I think there are no broad generalizations about the pay of service jobs. You have to break down the numbers and look at some of the specific occupations, and it tends to show, according to the Bureau of Labor Statistics, that the lower paying service jobs are not the ones that are growing and, in fact, they are declining to a certain extent. It is the higher paying service jobs that are expanding.

Similarly, in terms of manufacturing, the higher paying manufacturing jobs are somewhat declining and the lower paid ones are rising, so that the broad generalization about the higher pay of manufacturing jobs versus service jobs isn't necessarily correct.

In closing, I point out that the share of output in our economy from the manufacturing sector has been pretty constant for about a generation, which suggests that what is really going on here is rising productivity. The people in the manufacturing sector are producing more and more per worker, just as in the agriculture sector we have had steadily declining numbers of people working in agriculture, and yet our biggest problem is massive surplus.

So, in conclusion, I just don't really see that the problem of service jobs replacing manufacturing jobs is a negative trend, and I don't see that it has any impact on the income distribution. So I will just close with that.

[Prepared statement of Bruce R. Bartlett follows:]

PREPARED STATEMENT OF BRUCE R. BARTLETT, SENIOR FELLOW, THE HERITAGE FOUNDATION, WASHINGTON, DC

Mr. Chairman, in recent months, a number of writers and politicians have voiced concern about the increasing role of the service sector in the U.S. economy and its role in the alleged decline of the middle class. The idea is that the manufacturing sector is declining, due to unfair competition from abroad, and, therefore, the number of traditionally well-paid jobs in steel plants and on auto assembly lines is also declining, to be replaced by lower-paid service jobs in fast-food restaurants. This trend is so pronounced, it is said, that the very future of the middle class is in doubt, with the U.S. increasingly being polarized into a two-tier society of rich and poor.

Although not linked directly to trade, such arguments fuel the pressure for protectionism to maintain traditional manufacturing jobs in steel, textiles, autos and many other industries. In fact, the movement toward services is a long-term trend which is evidence of increasing wealth, not decline. It is a trend which is equally evident in other nations as well, including Japan. Moreover, the service sector is not made up solely of low-paid jobs, nor does its growth come at the expense of manufacturing, which is actually doing quite well. And finally, there is no evidence at all that the middle class is declining.

The Trend Toward Services

In terms of jobs, it is certainly true that services have been the predominant source of growth in recent years. Employment in in manufacturing fell from 21 million in 1979 to just 19.2 million in 1986, although this is an increase from the 1982 low of 18.4 million jobs. Total employment in goods-producing industries--including mining and construction, but excluding agriculture--peaked in 1979 at 26.5 million jobs, falling to 24.9 million last year. Virtually all of the employment growth in the U.S. economy, therefore, has been in services--a broad category which includes transportation and public utilities, wholesale and retail trade, finance, insurance and real estate, government and a wide variety of other occupations. Employment in this category has risen by over 10 million jobs just since 1980, from 64.7 million to 75.2 million in 1986. Thus 75 percent of all nonagricultural workers are employed in jobs classified as service-producing.

This is part of a long-term trend in the U.S. economy which dates back at least to the 1860s, when agricultural employment began its steep decline. As Table 1 illustrates, employment in agriculture fell from 60 percent of the labor force in the 1860s to just 6 percent by the 1960s. Currently, agriculture employs less than 3 percent of the labor force, yet our most serious agricultural problem is too much production.

Why have services grown so rapidly? The simple answer is that as an economy grows and matures there is greater demand for services. As Table 2 illustrates, consumption of services has increased dramatically over time, from 33 percent of total consumption in 1950 to over 52 percent in 1986.

The reason is three-fold. First, there appears to be a limit on the ability of people to consume more goods as their income rises. As Adam Smith noted, "The desire of food is limited in every man by the narrow capacity of the human stomach." Thus people do not typically buy more and more food as their income rises, but rather

Table 1

Percent of U.S. Labor Force Employed by Industry

Period	Agriculture*	Manufacturing**	Services
1860-69	60	20	20
1870-89	50	25	25
1890-99	42	28	30
1900-09	37	30	33
1910-19	31	31	38
1920-29	27	34	39
1930-39	22	31	47
1940-49	17	31	52
1950-59	9	34	57
1960-69	6	32	62

*Includes Forestry and Fisheries

**Includes Mining and Construction

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Long Term Economic Growth, 1860-1970 (Washington: U.S. Government Printing Office, 1973), p. 101.

Table 2

Services as a Share of Personal Consumption Expenditures

Year	Percent
1986	52.2
1985	51.4
1984	50.5
1983	50.5
1982	50.1
1981	48.8
1980	48.0
1970	44.4
1960	40.5
1950	32.8

Source: Commerce Department,
Bureau of Economic Analysis

consume more food in restaurants instead of at home.

Secondly, a given stock of goods in and of itself creates a demand for services. For example, the purchase of a car requires years of repair service. Thus the demand for services rises with the stock of goods.

A third, and increasingly important, reason for the growth of services is that as an economy becomes larger and more complex there is increasing specialization, with manufacturing firms contracting out tasks that were formerly taken care of in house or simply neglected. Indeed, business services have been one of the fastest growing areas of employment and are projected to be the fastest growing area of employment growth over the next ten years according to the Bureau of Labor Statistics.

International Trends

The growth in services would therefore appear to be a trend generally applicable to economic development, rather than a trend unique to the United States. If this is the case, then one would expect to see the same trend in other countries. In fact, one does see such a trend. As Table 3 illustrates, employment in services has grown sharply in every Western industrialized nation. Indeed, the increase in service jobs in Japan was over three times greater than the increase in the U.S. between 1965 and 1980.

Table 3

Employment in Services as a Share of the Labor Force

Country	1965	1980
Spain	32	46
Ireland	41	48
Italy	34	48
New Zealand	51	56
United Kingdom	50	59
Belgium	48	61
Austria	36	50
Netherlands	50	63
France	43	56
Japan	42	55
Finland	41	53
West Germany	42	50
Denmark	49	61
Australia	52	61
Sweden	46	62
Canada	57	65
Norway	48	62
Switzerland	41	55
United States	60	66
Weighted Average	48	58

Source: World Bank and International Labour Office

Quality of Service Jobs

On the surface, it appears that the growth of service jobs and the decline of manufacturing jobs should have a depressing effect on incomes. In 1986, earnings in manufacturing averaged $396.01 per week compared to $265.20 per week in services. Thus, to the extent that lower-paid service jobs "replace" higher-paid manufacturing jobs, one would expect people to have more difficulty maintaining a middle class standard of living. A recent report commissioned by the Democratic members of Congress's Joint Economic Committee recently gave wide publicity to this argument. According to the JEC study, 6 out of 10 new jobs created during the current recovery pay less than $7,000 per year.

Broad generalizations about manufacturing versus services, however, mask important distinctions about the quality of such jobs. Moreover, the relationship between earnings and incomes is far weaker than one would imagine. Examining these issues in more detail gives a much different picture of the economic impact of services.

For one thing, services include not only such traditionally low-paid jobs as those in retail trade, but also many of the highest paid jobs available, such as those in law, computers, advertising and medicine. In addition, the relatively higher-paying service jobs are those that are expanding most rapidly, while lower-paid unskilled jobs are contracting. Thus it turns out that the contraction of relatively higher-paid manufacturing jobs has been matched by an equal decline in low-paid unskilled jobs, thus leaving the middle class's relative position unchanged.

It is also important to note that service wages are strongly influenced by the high proportion of part-time jobs in this area. Some 20 percent of service jobs are part-time, compared to less than 5 percent in manufacturing. Part-time jobs, in turn, generally pay less than equivalent full-time jobs in the same business. Thus the existence of a large number of part-timers automatically pulls down the average level of wages. The proliferation of part-time jobs, in turn, is not a cause for concern because most people who work part-time do so out of choice, because it suits their schedules and life-style. Mothers, for example, tend to prefer part-time to full-time jobs because it allows them more flexibility in balancing a job with child care. If part-time employment were not available to these women, many would not be able to work at all.

Indeed, it turns out that the JEC study failed to distinguish between part-time and full-time employment. Moreover, it was highly selective in its choice of base years for comparison, took no account of cyclical factors in its analysis, and used the wrong inflation index to deflate the data. When one adjusts the numbers for these factors, the conclusion is no longer supported. In fact, it turns out that when the Bureau of Labor Statistics reviewed the data used in the JEC study it was discovered that the authors, Barry Bluestone and Bennett Harrison, had completely misrepresented the actual trend, which shows a declining number of low-paid jobs and a rising number of higher-paid jobs. The recomputed data is shown in Table 4. As one can see, changing the base years used for comparison gives a completely different picture of the trend and substituting the personal consumption expenditure (PCE) deflator for the CPI in the calculations completely reverses the trend.

Table 4

Recomputation of JEC Data on Net New Jobs

	Low-Pay	Middle	High-Pay
Original JEC study:			
1979-1984	58.0	47.5	-5.5
BLS recomputation using JEC methodology:			
1976-1980	33.4	66.1	0.5
1977-1981	41.4	68.1	-9.5
1980-1985	25.4	31.2	43.4
1981-1985	7.2	46.2	46.6
1982-1985	8.3	33.1	58.6
BLS recomputation using PCE deflator:			
1981-1985	-16.5	47.1	69.4

Source: Bureau of Labor Statistics, reported in Warren Brookes, "Sorry, Wrong Numbers on Jobs and Poverty," Washington Times (April 20, 1987).

It should also be noted that our data on services is much less accurate than our data for manufacturing. The questionaires upon which the data are based are still basically designed for manufacturing firms and do not make critical distinctions between, for example, the differences in the nature of supervisors and production employees in services and manufacturing. Moreover, despite the growth in the services as a share of the economy, only a third of the firms surveyed for wage and hour data are service firms.

Another misperception is that service industries have low productivity and low capital intensity, contributing to the low quality of their jobs. In fact, the service sector is highly capital intensive and the productivity growth of service workers compares well to manufacturing workers, although the overall level of productivity remains lower in the service sector than the manufacturing sector. However, much of this may be explained by the difficulty of measuring productivity in the service sector. It is relatively easy to measure output in manufacturing, since one merely has to count the numbers of units produced compared to labor inputs. This is much harder in services, where the product is much less tangible. There is, for example, no known way to measure productivity in government, a major area of service employment.

Finally, one shouldn't fail to mention that an employment shift away from manufacturing toward services will undoubtedly improve the quality of life for most people. Being able to work in an air-conditioned office would generally be considered an improvement over physical labor on an assembly line. Although this is seldom mentioned as a point in favor of services, it is not one that should be ignored.

Manufacturing Remains Healthy

Virtually all discussion of the "decline" of the manufacturing sector concentrates on employment. The reason for this is that if one looks at output one cannot find any evidence that the manufacturing sector is declining. The fact is that manufacturing as a share of GNP has held steady for decades, as Table 5 demonstrates.

Table 5

Real Manufacturing Output as a Share of Real GNP

Year	Percent
1985	21.7
1984	21.4
1983	20.6
1982	20.1
1981	20.8
1980	20.9
1970	21.0
1960	20.4
1950	21.4

Source: Department of Commerce, Bureau of Economic Analysis

What has been happening is that rising productivity in the manufacturing sector has allowed more goods to be produced by fewer people, just as rising productivity allowed agricultural employment to fall from 60 percent of the labor force in 1860 to about one-twentieth that number today.

In fact, contrary to popular perception, the level of U.S. manufacturing productivity is the highest in the world, although the growth in productivity has lagged behind other countries in recent years. However, this is partially just a function of measuring techniques. If the U.S. productivity level was at 100 and Japanese productivity was at 50 and each country increased productivity by two percentage points, then U.S. productivity would have grown two percent while Japanese productivity would have risen four percent. Since Japan suffered considerable destruction in World War II while the U.S. was essentially undamaged, Japan started from a much lower level of productivity. Thus Japan's amazing productivity growth rates can largely be explained by "catching-up." Yet despite Japan's double-digit growth rates, its overall level of productivity remains below the U.S., with Japanese manufacturing workers producing about 93 percent of American workers, as Table 6 indicates.

The table also indicates that although U.S. productivity growth lagged behind our major trading partners for most of the 1960s and 1970s, since 1980 our productivity growth rate in manufacturing compares well with our competitors--again contrary to popular perception. Indeed, many reports are indicating a new era of growth in manufacturing in coming years.

Table 6

Growth in Manufacturing Productivity, Selected Countries

(Output per Hour, Percent Change, Annual Rate)

Country	1960-73	1973-80	1980-84	1982-84	Productivity Level*
U.S.	3.2	1.2	4.0	5.8	100.0
Canada	4.7	1.6	2.4	5.2	85.7
Japan	10.5	7.0	6.8	7.3	93.3
France	6.5	4.6	4.7	4.6	81.3
Germany	5.9	3.8	3.1	4.7	90.4
Italy	7.3	3.7	3.5	4.4	84.1
U.K.	4.3	1.0	5.3	5.3	59.3

*1984

Source: Molly McUsic, "U.S. Manufacturing: Any Cause for Alarm?" _New England Economic Review_, Federal Reserve Bank of Boston, January/February 1987, p. 10.

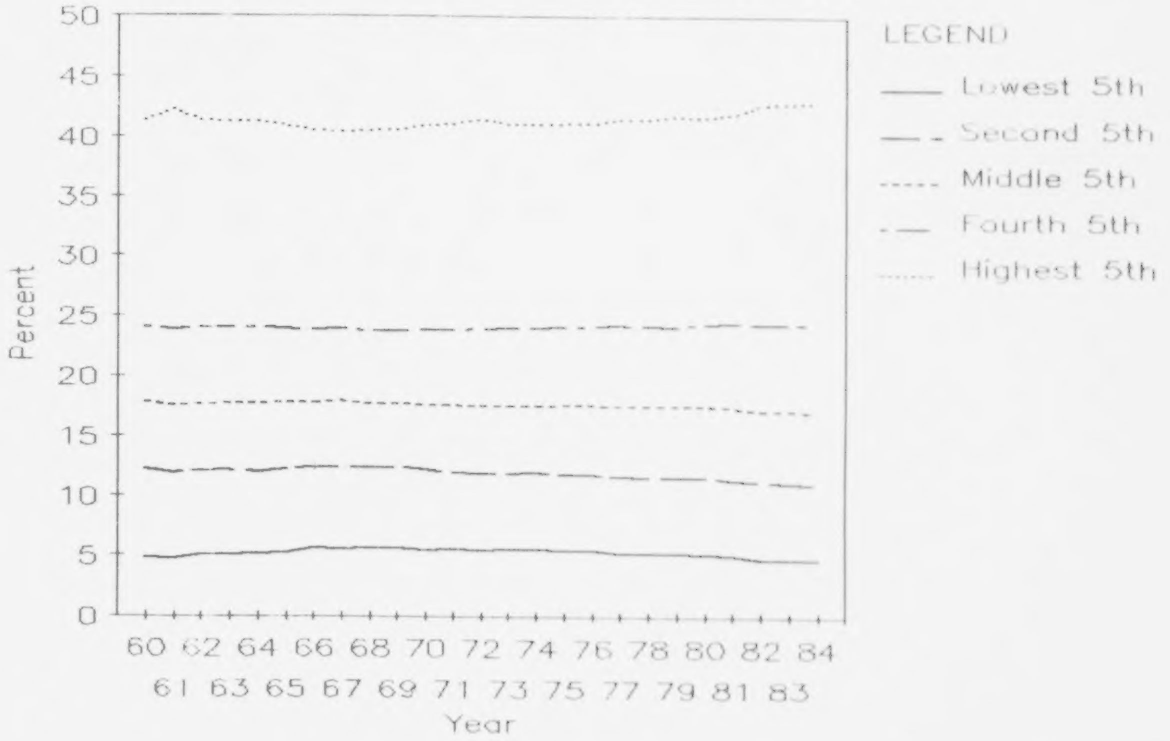
Middle Class Alive and Well

A number of recent studies have examined the question of whether the middle class is declining and concluded that the middle class is alive and well. This fact is confirmed by a simple examination of the distribution of income in the U.S., as shown in Figure 1. As one can see, the distribution of income is extremely stable, with no evidence that any class is gaining on any other. Studies which purport to show otherwise rely almost exclusively on wage data, rather than income data. Yet there is much less of a relationship between wage rates and family income than one would imagine, due largely to changing family size and the proliferation of two-earner families. Thus, even if one were to accept the idea that low-wage jobs were replacing high-wage jobs, it wouldn't necessarily prove that the number of families with middle-class incomes would also decline.

It is also important to remember that however one defines "upper," "middle" and "lower" class that these terms do not necessarily include the same people over time. The fact is that throughout peoples' lives they may move up and down from one class to another, and certainly over a period of generations many families that may have been in the upper class will fall to the lower and middle classes, while many in the lower class will move up to the middle and upper classes. Sons and daughters of manual laborers may become doctors and lawyers, while sons and daughters of the wealthy may squander their inheritance and make nothing of themselves.

In any case, there is no evidence that the broadly-defined middle class in the U.S. is declining.

Figure 1
Distribution of Income in the U.S.



Source: Census Bureau

Conclusion

The growth of the service sector is a natural development in the U.S. economy which largely indicates rising wealth, not decline. In any case, it is not leading to a decline in the manufacturing sector or the middle class. Those who make such arguments do so because they hope to justify protectionism for declining industries like steel, whose woes are more attributable to exorbitant union wages than to foreign competition. Unfortunately, the data simply does not support their thesis.

Chairman **Miller**. Thank you.

Ms. Schoen.

STATEMENT OF CATHY SCHOEN, RESEARCH ECONOMIST, REPRESENTING SERVICE EMPLOYEES INTERNATIONAL UNION, WASHINGTON, DC

Ms. **Schoen**. Thank you.

As you noted, I am Cathy Schoen, research economist for Service Employees International Union, and I want to thank the chairman for holding these hearings on behalf of our president, John J. Sweeney, and our 850,000 members.

Service Employees is a service sector union. Our members are in offices, hospitals, nursing homes, building services, and many of those contracted out jobs Mr. Bartlett mentioned. In fact, nearly roughly three out of four of all workers work in this broad array of industries called services.

As you noted and as the two other panelists noted, for decades this transition meant prosperity, and all of this ground to a halt in 1973 or thereabouts in the early 1970's. I want to talk about what has changed in job policies that has brought about what we see as a decline in income, as a decline in the middle class, an increase in poverty, and a basic inability for families to survive; and I will come back with a few details on that later.

One basic fact, before I go into what has actually changed, is that the work force itself has changed dramatically. The massive entry of women into the work force means that, today, women are nearly half the work force and they will be more than the half in 1990. So when we are talking about economic standards we are also talking about our basic ability to produce and nurture the next generation, our ability to care for aging parents and relatives, all depending on job policies now, because we have a new work force out there, and we really feel that we need new public action to help this work force as well.

Up until 1973, we had prosperity with the transition to services, and what changed was a world economy which confronted corporations with basically two choices: they could either compete by producing products better by investing in their work force, or they could choose to try and get short-term profits by cheapening their work force.

If you talk to basically any worker, if you watch the news today, you can see which course was taken. But I would like to outline what we see as four basic trends that are out there right now working on jobs that produced the decline in real pay that Frank mentioned.

First is something we have termed as pushing people toward the margins of the work force. These are your part-time, your temporary, your contract workers. These are jobs that often pay less per hour, very rarely have any benefits, and have no future. An estimated at least one out of four workers is now at the fringe of the work force in one of these three categories.

I have included some examples from our own experience in my testimony. A recent Wall Street Journal article noted that this started at the bottom and is now spreading to the top of all jobs.

Large firms estimate by 1990, 15 percent of all their workers will be working under contract rather than inside. These jobs often have no benefits and they have no future.

The second basic trend is a concession bargaining trend which produced wage freezes, wage cuts, cuts in benefits; it has also produced a new phenomenon called two-tiered wages where new hires work side by side with people earning less even though they are doing exactly the same work. Even in union contracts, roughly 10 percent of all workers are on a second tier. Large profitable corporations are now instituting two tiers. This is not just a financial distress phenomenon.

The third basic trend is abolition of higher wage jobs altogether by moving them offshore or overseas. We have lost roughly two million manufacturing jobs this way, and this is even after four and a half years of recovery. The Department of Labor is now revising its outward estimates because manufacturing hasn't recovered.

The fourth is perhaps a more subtle trend. We have lowered the floor under all wages. The minimum wage, by not increasing, has actually declined in value 27 percent. So now two full-time workers with two children earn barely above the poverty level by working all year round. In fact, low wage families on welfare can't go to work because after taxes they don't earn enough to pay for child care.

As mentioned at the outset by the chairman, these job policies have resulted in declining living standards. Not only is the average income down for families—and I am talking about working families here—income in equality means the bulk has moved down as well. So the average doesn't tell the full story: more people at the bottom, the middle has shrunk.

But, beyond that, these are only income statistics. If you start looking at what has happened to benefits, the story is even worse. For example, in health insurance, the number of people who are totally uninsured, has increased by 50 percent since the late 1970's. We now have 35 to 37 million uninsured people. This is 17 percent of the work force under 65, and most of these people, recent surveys show, are workers; they are full-time, year-round workers with children. So we are not talking about even a fringe or unemployed work group. These are working people without any health insurance.

People have been left partially unprotected or largely unprotected because the shift in jobs towards the service economy has also been a shift towards a nonunionized work force. So there is no opposition or no organized strength to oppose this, and all trends indicate more to come. In fact, if you look at job growth by total numbers of people, the largest growing jobs are low wage jobs. Percentages are higher in the high wage jobs, but the numbers are higher in the low wage jobs.

As the chairman noted, families are working harder to try to keep even. If women hadn't gone to work, the decline would even be greater. Women working is now the norm; our mothers, our daughters, are working. This means no one is at home to take care of the children, to take care of aging parents. Yet corporate policies for leave and family care haven't changed.

In contrast, I just want to note—and there are details of this in my testimony—there has been an image that this is a small business phenomenon in some way. At the same time as we have seen declining standards in our growth and large service corporations, Fortune 500 service corporations now rival the Fortune 500 industrials. In fact, they keep hopping off each other's list. Yet even the giants' pay policies are going down. So rather than us all rising to a manufacturing standard, we are coming down.

I want to close with asking you all and other committees, as we have been doing a series of meetings around the Hill, with a call for public action. This is bad for the economy as well as families. People need money in order to buy what we produce. We need an investment in the work force. This is our most valuable resource in order to compete in the world economy, and as first minimal steps—and I stress "minimal"—we need some new ground rules out there. We need enactment of a national parental and dependent care standard. We need increased funding for decent child care. We need an increase in the minimum wage. We need enactment in pay equity for the Federal Government so that it is a model without pay discrimination against women workers. Finally, for the first time, we need to guarantee that every person working for a living is guaranteed at least basic health insurance coverage.

I have included some recent newspaper clippings and a longer report, a recent report from Service Employees, as well as a public opinion poll showing widespread support for new public action, and I ask that these be put into the record along with my testimony.

Thank you.

Chairman MILLER. If there is no objection, that will be done.

[Prepared statement and documents of Cathy Schoen follow:]

PREPARED STATEMENT OF CATHY SCHOEN, RESEARCH ECONOMIST, REPRESENTING SERVICE EMPLOYEES INTERNATIONAL UNION, WASHINGTON, DC

WORK AND FAMILY IN CONFLICT

New Job Policies Erode Family Living Standards

I am Cathy Schoen, Research Economist representing Service Employees International Union. On behalf of SEIU's 850,000 members, I applaud the Committee and Chairman Miller for holding hearings to investigate what is happening to families as the economy moves further down the road to a service economy.

SEIU represents the women and men working in hospitals, nursing homes, offices, building services, real estate, public utilities, government agencies and a long list of other industries -- all part of the growing service economy.

Today nearly 3 out of 4 women and men work in this broad array of industries that Census calls "services". (Manufacturing employed only 19% of all wage earners by 1986 -- down from 30% in 1950.)

As you have heard earlier this morning, for decades the steady growth in the service economy and the transformation of U.S. industry jobs produced rising living standards and increased leisure time.

From 1947 to 1973, average family income doubled.

Today despite more people working for wages than ever before and four and one half years of recovery from recession, average income is down, and family income distribution is more unequal -- fewer families make it to the middle class and more are at the bottom and top.

At the same time, families have stretched themselves to try and hold on.

By the end of 1986, the proportion of people working for wages stood at an all time high.

Today two paychecks are necessary to support a family. Mothers of even young children expect and are expected to work.

Out of necessity, our workforce is already nearly half women -- most in their childbearing years.

And by the 1990s, women will be the majority of all wage earners.

Now, perhaps more than ever before in U.S. history, our families need wage, benefit, leave time and other job policies that are supportive of families.

More is at stake than economic living standards alone.

Our ability to produce and nurture the next generation and our ability to care for our aging parents and relatives now depend critically on workplace policies that support the new workforce.

Yet, SEIU members and wage earners throughout service and manufacturing jobs find new job policies are working against families.

As a result, having a job no longer means an ability to have or support a family -- and no longer offers the key to middle class status.

On behalf of SEIU members and all families that depend on wages for a living, we are here today to urge new public action to re-direct U.S. job policies.

We need a new set of ground rules.

The health of our families and the U.S. economy depends on our ability to reward, not waste, our people at work.

Service Economy Initially Meant Higher Living Standards

As we stated at the outset, for decades the U.S. transition to a world of work dominated by service industry jobs produced rising standards of living.

A largely unionized manufacturing workforce set job standards and goals.

New unions in service industries and even non-union employers looked to close the wage, benefit and hours gaps by catching up.

Jobs meant opportunity, an ability to support a family and economic security.

Although the mix of jobs was changing throughout the economy, job standards were rising across industries.

Public policy implicitly relied on collectively bargained contracts to set the pace and tie rising living standards to industrial evolution.

Today we are concerned not so much about the job mix as new job policies that seek to undermine all jobs supporting people that must work for a living.

Changing World of Work: Job Policies Break Link Between Having a Job and Decent Standard of Living

Competitive pressures from the world economy coupled with the ability U.S. corporations to choose production sites around the world changed the economic environment since the mid-1970s.

U.S. corporations faced two very different choices in a new, more integrated world economy.

o Improve product quality and productivity by investing in workforce training and skills and innovation, while looking to public policy to manage trade relations;

or

o Seek short term profits and shelter by turning back the clock on U.S. job standards -- cheapening the workforce rather than making products better.

Any worker and repeated media stories can tell you which path we've been on since the early 1970s.

Four Major Trends Eroding Job Standards

Four broad job trends have emerged as part of the new "lower workforce standards" strategy.

1. **More People Forced to the "Margins" of the Workforce.** Starting initially at the bottom of job hierarchies and now spreading upwards, new job policies have created a marginal workforce of part-time, temporary and contract workers with lower wages, few or no benefits and no job future.

Taken together, 1 out of 4 workers now fits this category.

o **Part time** workers accounted for nearly 1 out of 5 (19%) of all employed people by 1986. And average hours for part-timers are declining.

o **Temporary** agencies jobs were up to 786,900 by 1986 -- nearly double the count in 1982. And these job counts fail to include the estimated 250,000 temporary federal jobs or hundreds of thousands other temporary positions working directly with state, local or private employers.

-- In Los Angeles County, for example, SEIU Local 660 has fought a losing battle to win benefits for the 10,000 plus temporary employees -- 1 out of 6 County jobs. The average tenure is 4 to 5 years; some have been "temporary" for 25 years.

o **Contracting for Work.** Officially another 1.7 million people work for contractors to clean guard and perform other contract services for business. Another estimated additional 1 million "self-employed" are individual contractors.

Now the trend has reached corporate headquarters.
The Wall Street Journal ran a headline article releasing data that large companies expected to increased contract work from 5% in 1983 to 15% of their workforce by 1990. (May 4, 1987).

2. **Concession Bargaining or Reduced Pay by Fiat.** Across the board reductions in pay and benefits have produced a new two-tiered wage structure. **An estimated 10% of union contracts** now have a second tier -- no estimate exists for non-union. Newly hired workers face wage and benefit scales as

much as 30 - 35% lower.

> Initially tiers tended to be a response to financial distress. Last year Kaiser Permanente, a $4.1 billion health maintenance organization, demanded a second tier of SEIU members in Northern California despite record profits and industry dominance. It took a 7 week strike to cut the tier in half to 15%.

3. **Abolishing jobs altogether by shipping them overseas or off shore.** Over 2 million higher wage manufacturing jobs have been lost since 1979 -- even after "recovery".

4. **Reduction of the Value of the Minimum Wage.** By failing to raise the minimum wage with the cost of living, the floor underneath wages has dropped by 27% in the 1980s.

> The 6.5 million women and men working at the minimum wage fail to earn enough after taxes for child care. The low floor today is a barrier to helping impoverished families with children find jobs.
>
> Full time work at the minimum wage today leaves a family of two or more in poverty. Even two full time workers would be at poverty's edge with 2 children.

Job Policies Undermine Family Living Standards.

The changes at work have produced pervasive and frightening declines in today's families' ability to achieve a decent standard of living by working.

Income Down -- Shrinking Middle Class

Median family income has declined and stagnated since 1973. By 1986 the average stood 6% below levels reached 13 years earlier. A dramatic reversal of our history.

And the "average" hides a still greater decline for the bulk of families.

The proportion of families earning less than $15,000 and more than $50,000 have both grown since 1973.

This means the middle class is shrinking. The proportion of families earning $15,000 to $50,000 has declined from 63% to 58%.

Loss of Basic Benefits

Even these income standards understate the decline.

Along with declining pay, jobs are losing basic benefits such as health insurance. Part-time, temporary, contract, and even major service industry corporations fail to provide even basic health benefits.

- By 1986, 37 million people under age 65 had no health insurance -- 17% of the under 65 population.
- The vast majority -- 75 to 80% -- were workers or their dependents.

The number of uninsured has increased 50% since the late 1970s -- a frightening reversal of the U.S. historic reliance on jobs to provide health coverage for the employed.

Families Working Harder to Try to Hold On

To fight against reduced living standards, families are working harder.

The dramatic entry of women into the wage workforce has been the one trend countering job policies seeking to lower living standards.

In fact, if women had not entered the workforce in record numbers during the 1970s, family income would be down 18 percent today compared to a decade earlier.

Declining income makes two paychecks a necessity. Single earner families' average annual earnings are at or below income standards necessity for "low" income life styles.

Child care and time to care for elderly parents has become a new work place necessity. No on is left at home to care for children or aging adults.

- Half of women with infants under 1 year now work.
- In 10 years, demographers forecast that 3/4 of all children will have wage earning mothers.

Yet, even working harder isn't holding the line for the younger generation. Given curent trends young men and women can expect to earn 25% less throughout their lifetimes than the previous generation.

Growth of New Service Industry Corporate Giants

In stark contrast to declining job standards, the 1970s and '80s have produced new service industry corporate giants.

Fortune magazine now tracks the *Service 500* along with the *Industrial 500* -- the largest U.S. based corporations.

These giants rival one another in size, wealth and profits.

To give just a few examples:

o Beverly Enterprises, a nursing home chain, now employs as many people as Chrysler.

o McDonalds now pulls in almost as much in sales as Bethlehem Steel ($4.1 billion compared to $4.3 billion).

o Hospital Corporation of American employs more people and generates more revenue than General Mills.

Often these giants retain an image of "small" employer in local economies due to multiple worksites.

But in fact only their continued low pay and benefit policies fit the popular mythology equating services with small employers.

Too often taxpayers indirectly subsidize some of the nation's largest employers. Low pay policies results in public assistance to workers who make so little they cannot pay for bare necessities.

And now instead of service job policies rising to meet higher standards, all jobs are coming down.

New Job Standards Essential

New job standards are essential to give private and public employers a new set of ground rules for the new workforce.

The issue is not one type of job or another; or one industry versus another.

As in the 1930s, the "attack jobs" strategy -- all jobs -- is crippling U.S. economic growth as well as families.

Our highly educated, skilled workforce with a commitment to work is our most valuable resource in a more integrated world economy with rapid technological change.

A new commitment to training and investment in the workforce not pushing people to the fringe of work is the key to our future.

And families must have the ability to buy what the economy can produce for the economy to grow. Consumer credit is already at an all time high; and savings at a low.

Fifty years ago and more the widespread failure of private policies to put the economy to work for its people brought a new set of standards.

Today, we need renewed public action for families.

As first **minimal** steps we urge the following:

o Enactment of national parental and dependant care workleave standards.

o Increase funding for and development of decent child care services.

o An increase in the minimum wage to provide at least survival pay.

o Enactment of pay equity to make the federal government a model for all employers.

o And, for the first time, passing legislation to guarantee that anyone working will be insured for basic health care services.

In sum, we need to put job policies on the side of families and to meet the needs of the new workforce.

We have attached a recent SEIU pamphlet and news articles to provide further detail. We ask that these be entered into the record along with our testimony.

Thank you.

"REPRINTED FROM THE APRIL 20, 1987 ISSUE OF BUSINESS WEEK BY SPECIAL PERMISSION. © 1987 BY McGRAW-HILL, INC."

Even Business Week, the Wall Street Journal and NBC Nightly News cite evidence of a declining living standard .....

Business Week, April 20, 1987

Special Report

STANDARD OF LIVING

WARNING: THE STANDARD OF LIVING IS SLIPPING

Adjusted for inflation, paychecks are declining for many people

Is the American dream about to end? For the first time since the Depression, millions of Americans face the growing likelihood that they will not be able to live as well as their parents. Caught in a vise between slowing productivity and fierce competition from low-wage foreign producers, many workers are being forced to accept pay cuts to save their jobs. Manufacturing continues to decline as a source of high-paying jobs, while services boom. But the service jobs offer mobility only to a well-educated top tier of the work force.

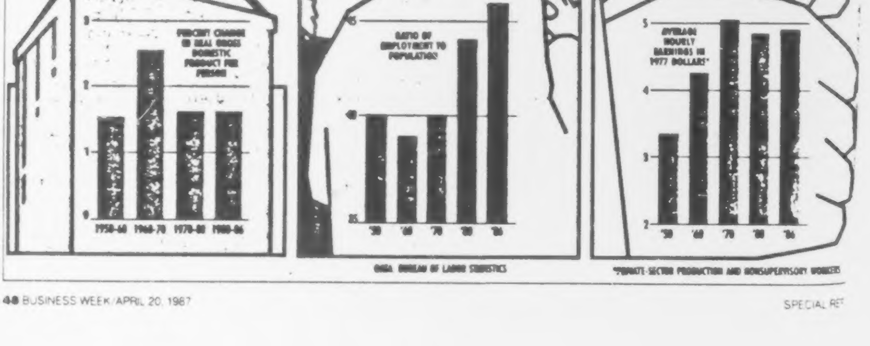
Other workers who might have gone into the same plant that employed their fathers find those jobs disappearing. And they may lack the education and skills needed on Wall Street or Route 128. Corporate restructuring, too, is driving hoards of middle managers and white-collar workers onto unemployment lines or into lower-paying jobs.

What's happening is painfully simple: The U.S. standard of living, long the envy of the rest of the world, has hit the wall. In fact, there is overwhelming evidence it's already slipping for many people and may drop even more unless the U.S. can reverse its productivity decline of the last 15 years or so. Says former Labor Dept. Under Secretary Malcolm R. Lovell Jr., who now teaches at George Washington University: "The standard of living hasn't been going anywhere for a decade." For nonsupervisory workers—some four-fifths of the work force—wages adjusted for inflation have fallen since their peak in 1972.

THE SWEAT FACTOR. If cooling off the growth of wages is the only current way to keep the U.S. competitive—at least until business can make itself more efficient in other ways—what's so bad about it? After all, says Richard S. Belous, an economist at the Conference Board, "we still have a tremendously stable society, and the proletariat isn't about to storm Bloomingdale's."

Right, but Belous raises some more serious issues: "If we don't start growing again, a dropping standard of living will bring more inequality and could cut off some of the traditional roads to advancement." That could shake the nation's governability, he adds, by "making it harder for politicians to form broad, lasting coalitions." For business, it could mean a resurgence of unionization, even among professionals, and a further erosion of worker loyalty.

The standard of living is a difficult concept to define, much less measure. To see how the average person has fared, some economists take the real gross domestic product—the total output of goods and services in the country—and divide it by the population. That yardstick shows that GNP per person increased at a brisk annual pace of 2.6% a year from 1960 to 1970. But since then



DATA: BUREAU OF LABOR STATISTICS

*PRIVATE-SECTOR PRODUCTION AND NONSUPERVISORY WORKERS the rate has fallen to a 1.6% annual rate (chart). Other economists prefer to look at what has happened to the income of the typical household. And that tells a more dismal story. In 1973, median household income, after adjusting for the effects of inflation, was actually almost 8% higher than it was in 1985.

The stagnation in income is even more disturbing because more people than ever are working to produce that same income. What economists call the sweat factor has risen. The number of people employed has jumped from 40% of the population in 1970 to 46% today, as the baby boom has swelled the number of working-age people and more women have gone to work. The overall labor force has grown by nearly 28% since 1973, to more than 115 million, and two-thirds of the 33 million new workers are women, who now account for 44% of all employees. Since hourly wages in real terms have fallen 8.7% since 1973, it is these added workers who have helped families keep their heads above water.

NO HONEYMOON. Look at what would have happened to living standards if men had remained the sole breadwinners. According to a study last year by the Joint Economic Committee of Congress, a 30-year-old male earned—in 1986 dollars—an average of $25,253 in 1973. Ten years later, the average 30-year-old man earned only $18,763 after adjustment for inflation—one-fourth less. "Clearly, if only the father worked in an average young two-parent family in the 1980s, there would be a drastic decline in family income as compared to 1973," states the Committee's report. Even with more wives working, the report finds that the average income of two-parent families fell by 3.1% from 1973 to 1984. The decline would have been three times as large if more mothers had not gone to work.

The conclusion is unsettling: Many American families now must put two people to work to match the living standard that one person could have provided in previous decades. Some economists argue that many women are working not out of necessity but because they want to. Nonetheless, their extra income should make their families better off. Instead, the average family is working harder just to stand still. "Today, you need two people working to make what is considered a middle-class standard of living," says Frank Levy of the University of Maryland.

To keep spending as their income falls, U.S. families have gone deeper and deeper into debt. Consumer installment debt rose from 13% of personal income in 1973 to more than 16% last year. And that doesn't include all the home-equity loans that are being used to buy cars and other products.

Slow economic growth has had its most dramatic effect on those born during the baby boom. Many baby boomers have delayed marriage, in part because of the sexual revolution but also because of the decline in their ability to earn a decent living. The data show that instead of getting married at 22, as their fathers did 30 year ago, men on average today hold off until they're 26. Women whose mothers married at about 20, now wait until they're 23. When they do marry, these young couples put off having children. And the number they choose to have is down as well: The birth rate has dropped from 24 children per 1,000 women in 1960 to 15 per 1,000 today.

The baby boomers also have had to settle for less in other ways. Many live in smaller houses than those of their parents: Less than half of new housing units today are single-family detached units, compared with more than 60% as late as the 1970s. They also get by with fewer necessities. The typical family headed by someone aged 25 to 34 spent 14% less on furniture in 1981 than a similar family did in 1973, according to a

ALAN LEVENSON

NOW, EVEN THE DAILY PAPER IS A LUXURY

Most Americans today expect at least to match the lifestyle they enjoyed growing up in their parents' house. But Curtis and Cynthia Paltza are finding that modest goal out of reach.

When the couple married two years ago, they planned on a house and children and maybe even a second car. Now they have a seven-month-old daughter, Breanna. But they still live in a rented apartment, though Curtis' office job with the Los Angeles School District pays $27,000 a year—close to the $27,735 median annual family income in the U.S. in 1985. Even buying the daily newspaper has become a luxury the family can no longer afford.

Since Cynthia quit her $10,000-a-year job as a florist to raise Breanna, the comfortable life their parents had has become even more elusive for the Paltzas, both 30. Half the $1,246 a month that Curtis brings home goes for rent. To pick up an extra $30 a month, he monitors college entrance exams at California State University at Long Beach.

Meanwhile, the Paltza's indebtedness keeps climbing. The car recently broke down, swelling their Visa bill to $800. And they still have not repaid the $1,300 they borrowed for the security deposit and the first month's rent on their apartment in the south Los Angeles community of Lomita.

STILL HOPING. Even so, the rough times haven't dampened the Paltzas' hope of finding a home of their own. Somehow they manage to put $55 a month into a savings account. But it will be tough to match what their parents had. Curtis' parents lived nicely on the combined income they earned from his father's job as a produce worker at Safeway Stores Inc. and his mother's job as a secretary. In 1949, when his parents were both 25, they could afford to buy a $7,500 house.

"By comparison to us our parents were self-sufficient," laments Curtis. Adds Cynthia: "It was much easier to make ends meet back then. Our parents feel sorry for young people today—they know how hard it is for us."

THE NEW YORK TIMES, SUNDAY, SEPTEMBER 7, 1986

Why We're Running Harder But Losing Ground

Every night this week,
NBC Nightly News with Tom Brokaw
reports to you on a widely overlooked
crisis in the making. America's backbone
– the middle-income majority –
is suddenly in serious trouble.

- ***Most Americans under 30 will never own their own homes.***
- ***Median family income is down from a decade ago (in real dollars).***
- ***Most young wives have to work to keep their families in the middle class.***

Be sure to watch "Running Harder, Losing Ground," a week-long **Special Segment** with correspondent Garrick Utley. It's a startling, significant story you ought to know more about. Starting tomorrow, you will.

An important five-part report starts tomorrow on

NBC NIGHTLY NEWS
with Tom Brokaw

7pm on 4

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MONDAY, MAY 4, 1987

Growing Small

As Big Firms Continue To Trim Their Staffs, 2-Tier Setup Emerges

'Outside' Work Force Does Many Former Inside Jobs, Without All the Benefits

A Requiem for Paternalism

By AMANDA BENNETT

Staff Reporter of THE WALL STREET JOURNAL

For longer than most Americans can remember, a good job with a big company has meant lifelong economic security and much more.

It has provided a place to meet and gossip, people to love or to hate, ball-point pens and expense-account lunches, bowling leagues and United Way drives, Christmas parties and hats emblazoned with corporate logos, cheerleading with catchphrases ("the Hewlett-Packard Way") and a metaphorical "family" usually headed by kindly but authoritarian father figures. In recent years it has even provided a corporate "culture." Those who have gone the route usually had well-attended funerals.

The Two-Tier System

Corporate mergers, international competition and slow economic growth have caused U.S. companies to slash their managerial work forces and to turn to outside help more often. The resulting changes are reverberating throughout corporate America. Other stories on page 18:

- **Insiders make do with less; outsiders try to make more from less**
- **Survivors learn to live with insecurity**
- **College seniors face a changed job market**

But imagine a company town a decade hence:

To 1980s sensibilities, many of Mega Corp.'s employees seem unusually sober-sided. One reason is that their jobs are only as secure as their next quarterly performance review. Still, they are more secure than the temporary and part-time workers the company hires as needed – and who make up nearly a quarter of the work force. Once-mighty Mega Corp. has shrunk to a third of its peak size in the late 1970s. A great deal of its engineering, data processing and advertising are done by a satellite system of smaller concerns nearby.

Below the top ranks of management, Mega Corp. veterans wistfully recall the good old days of paternalism, with company-underwritten medical insurance, gyms, M.B.A. degrees and softball teams. The frills and most of the fringes have vanished. Employees pay a large part of their health-care costs. Employees of smaller companies pay all of their medical insurance, while some individual Mega Corp. contractors or free lances do without.

All of this is evolving today in corporate America. One survey shows that three-quarters of the nation's employers may be planning managerial and administrative cuts on top of their recent wrenching cutbacks. Driven by the need to reduce costs and meet foreign competition to survive, employers are reshaping the corporation. In the process, they are reshaping much of American life.

A Two-Tier System

A two-tier work force is taking shape: "Inside" employees still enjoy benefits, perquisites and a degree of job security. New "outside" workers have an uncertain tenure.

"I call it a core and peripheral employment system," says Eli Ginzberg, professor emeritus of economics at Columbia University. Whatever it is called, the system already is chilling the long-standing intimacy between many employers and their workers. It is thrusting tens of thousands of managers, some eagerly and some reluctantly, into the strange new world of self-employment and entrepreneurship. It is changing the economy from one dominated by large corporations into one in which small firms play a bigger and bigger role.

Decades of economic growth almost completely unhindered by outside competition allowed corporate work forces to bloat. "For the better part of 40 years, American industry went on the assumption that the more control it had over people and business, the better," says Prof. Ginzberg. "There was a tremendous tendency to do as much as possible for yourself."

Richard A. Jacobs, a senior vice president at the consulting firm of A.T. Kearney Inc., estimates that during the 1970s, companies added white-collar workers at a rate of about 5% a year. Around 1983, he says, employers began to think of people less as assets than as costs. "When the economy hits a rough spot, they're burdened with them almost as if they're a piece of equipment," he says.

Further Cuts

Since the early 1980s, Mr. Jacobs says, companies that A.T. Kearney has surveyed have cut 11% from their managerial and administrative forces. Further cuts are planned by 77% of the companies. Meanwhile, temporary and contract help is projected to grow by 10% to 15% a year, at least through 1990.

"Companies have changed to just-in-time inventories," says Thomas Plewes, an analyst at the Bureau of Labor Statistics, referring to the keeping of inventories just sufficient to meet current demand. "Now they want a just-in-time work force." Employers say it is more humane that way. "When you hire someone on, you've made a commitment to them to take care of them for the rest of their lives," says Bradford Oelman, vice president of public affairs at Owens-Corning Fi-

Growing Small: Two-Tier Work Force Is Emerging At Many Firms, With the Use of Outside Contractors

Continued From First Page

berglas Corp. in Toledo.

But the layoffs and early retirements of the past few years have made it apparent that many companies can't keep the commitment. Just in the past year, Owens-Corning has reduced its costs by 50% and, by selling businesses, has reduced its revenue by 30%. One out of five employees in its remaining businesses has been let go.

But the company is using more temporary and contract workers.

Employees who keep their jobs, are becoming aware of the change in their status, and they fear for the future. Companies "don't talk about people anymore," says a manager at Morton Thiokol Inc. "They talk about head count." Says a Bell & Howell Co. manager: "We're strokes on a sheet."

Others observe that productivity is, after all, the name of the game these days. "When you use outsiders, you don't worry that much about loyalty," says Michael D. Adler, the director of human resource consulting for Ernst & Whinney. "You worry about budgets and getting the job done."

The country's largest corporations have already stopped creating jobs. From now on, labor specialists say, the growth will come at small companies. Big companies, of course, will fuel the growth—with cash. The engineering budget of General Motors Corp.'s Chevrolet division, for example, is larger than the *sales* of all but 200 of the country's largest companies. The budgeted money is increasingly being spread among small suppliers and contractors.

Engineer Haven

With auto-industry work, Modern Engineering Service Co., in Warren, Mich., has tripled its sales to $160 million and its engineering staff to 3,500 people over the past two years. Indeed, Ralph L. Miller, the president, sees the day not too far off when firms like his will grow to the extent that they themselves will contract much work out to others.

The state of Wisconsin has all but abandoned the effort to attract big-company branch plants that made Wisconsin the "Shining Star of the Snow Belt" in the 1970s. "The whole branch-plant phenomenon is drying up," says Randall Wade, a research director in Wisconsin's department of development. The state now is stressing entrepreneurial development with training and development seminars, management and technical assistance, and venture-capital financing.

To help the seekers of temporary work, new services are being organized. HR Consultants Resource in Rutherford, N.J., lists 1,200 executives eager to take temporary jobs. Headquarters Cos. in New York offers a $395-a-month package of telephone, telex, typing and secretarial services for work-at-home consultants.

At big companies, the survivors seem to be working harder to keep their jobs. "Fear is a motivator," says Kathleen Christensen, the director of the national project on home-based work at City University of New York. "If you're on track, you're going to do everything you can to stay on it." Contractors are working harder to keep their contracts. "They realize there are three other agencies that would love the job," says William Hamilton, the manager of corporate communications at Owens-Corning, who supervises outsiders working on employee-communications projects.

Some scramble because they hope to become insiders. "I want a full-time job," says a free-lance writer who has been working nights and weekends at one publication in hope of landing one. "I'm tired of this insecurity."

Are employers somehow getting something for nothing? Not likely, some specialists say. The erosion of morale and loyalty means that "a lot of people will manage their careers across companies, rather than in a single company," says Columbia's Mr. Ginzberg. "They'll leave if they don't find the work interesting," he says. "They aren't going to hang around and assume they'll get long-term payoffs."

Turnover Rates

That can mean high and costly turnover. At Modern Engineering Service, Mr. Miller is pleased that he has been able to reduce annual turnover to 30%. Until recently, it has been running as high as 400%. Even veteran employees are more willing to look for greener pastures. "We have seen a tremendous increase in the numbers of inquiries and resumes from people we know are effective, and [it] would be a blow to their organizations if they leave," says Ernst & Whinney's Mr. Adler.

Many managers are keeping as sharp an eye on their resumes as they are on the work they actually manage. "Managers aren't going to want to work in groups where they can't have a good number on their resume," says Paul Hirsch, a professor of business policy at University of Chicago's graduate school of business. "Every signal managers are getting is, 'Look out for yourselves,'" says Mr. Hirsch, the author of "Pack Your Own Parachute." In it, he advises employees to "return calls from headhunters, stay marketable, and stay visible."

Some managers even warn their subordinates to keep looking over their shoulders. "I tell people to think of this place as a nice place to work but not necessarily a place where you'll spend the rest of your life," says a manager at a company that has cut its staff and employed more outsiders. "I say, 'What's happening to them may happen to you someday.'"

Managers in newly mean and lean organizations must forgo some time-honored methods of building company spirit. Jeffrey Gittelman, the treasurer of Ideal Basic Industries Inc. in Denver, mourns the demise of company softball teams since the head-office staff has shrunk to 100 people from 400. "I know from participating in them that they do build esprit de corps," he says. Now, he invites small groups of employees home to watch sports on television.

Job satisfaction suffers. "Employee commitment is declining more than it ever has in the last decade," says Michael Cooper, the president of Strategic Management Associates, a part of the Hay Group of consultants in Philadelphia. In a 1977 Hay survey of 1,600 U.S. companies, 88% of middle managers and 72% of professionals expressed satisfaction with their company. By 1986, only 69% of middle managers and a little over half the professionals were satisfied. "Their attitudes about their company, its management, the credibility of the communication they receive, their attitudes about their supervision, their compensation and benefits—it's all across the board declining," Mr. Cooper says.

The egalitarian goal of parity in pay—equal pay for equal work—is being increasingly honored in the breach, as outsiders employed by small contractors work side by side with insiders at a corporation.

Some consultants with specialized skills, in computer programming, for example, can earn salaries many times those of their salaried brethren. But in most cases, the smaller the company is, the smaller the pay, at almost any level in the company. "I work just as hard as they do for a third of the salary," says the free-lance writer, who is working full time in the same office doing the same type of work as salaried staffers.

Loss of Benefits

To outsiders who themselves once enjoyed inside status, the adjustment is especially painful. Ms. Christensen cites the case of an insurance-company programmer who had earned $25,000 a year in salary but then was forced to accept less than $7,000 as a contractor for her former employer. And she lost all her company-paid benefits. Ms. Christensen forecasts a system with no benefits, no employer contributions to Social Security and no job training.

Whirlpool Corp. once trained all its engineers but believes it can no longer afford to train them for 12 to 24 months. Samuel J. Pearson, staff vice president for advanced development, says the company is turning over about 10% of its engineering work to outside contractors, and it plans to increase the rate to 20% by 1990.

Small contractors stay competitive in part by keeping benefit costs down. "We don't offer pensions at all," says Gus Perdikakis, the president of GPA Technical Consultants Inc., a Cincinnati, Ohio, engineering firm that works on contract for some of the country's biggest corporations. "We don't have dental insurance, and our vacation plan gives one or two weeks of vacation, not five or six."

Employee Benefit Research Institute, a nonprofit group in Washington, D.C., says that more than 90% of companies with more than 1,000 employees offer a package of benefits. But, it adds, only 55% of those with fewer than 25 employees provide health insurance, and only 28% provide pensions.

Unhealthy Situation?

As more work goes to a growing number of small companies, the number of workers covered by company-paid pension and health insurance plans seems likely to dwindle. The government will come under increasing pressure to finance health care for the working population. "I think we may be heading for de facto national health insurance," says Ms. Christensen.

The evolution of a two-tier work force excites some people who enjoy the challenge of facing the world on their own, free of corporate constraints. "When you work at Kodak, they baby-sit you," says Marlene Maggio, of Rochester, N.Y. She and her husband, Don, took early retirement from Eastman Kodak Co. to form their own photography venture. "Now, we're grown-ups on our own."

They make enough money—over $100,000 last year—to tide them over the slack times, such as the period last year when surgery forced Mr. Maggio to turn down work.

But others worry about the stability of an economy in which people increasingly must fend for themselves. "It is a highly insecure, highly volatile business," says a man who started his own public-relations business after losing his job at a big company. "One wave you have money, one wave you don't."

A job at a big company hardly offers much more security these days. "The safety net doesn't exist," says Mr. Adler of Ernst & Whinney. "We're all working without a net."

Columbia's Mr. Ginzberg agrees. The world of work, he says, "damn well is less stable. It's less stable because the world is less stable."

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INTERNATIONAL SECRETARY-TREASURER

ISSUES CONFRONTING THE NEW WORKFORCE

Results from a National Survey of American Voters

The Service Employees International Union represents 850,000 workers, most of whom work in service jobs in our economy. They range from janitors to secretaries, from nurses to police officers, from food service workers to highway engineers. They are average American workers, struggling like so many others to maintain the standards of living that their parents achieved and to better the future for their children.

In the economy of the 1980s, these workers face income and employment prospects that, in the absence of government action, are dismal. It is clear that the private marketplace will not address the needs of the new workforce. And, it is clear that these needs will be met only if the government takes an aggressive role to require workplace standards on pay and benefits.

We believe that the establishment of workplace standards is not only good economics, but is good politics as well.

The Service Employees International Union commissioned the national polling firm of Fingerhut/Granados Opinion Research to conduct a national survey of 724 registered voters to test the strength of voter opinion in three critical policy areas: parental leave and related child care issues, the minimum wage and health insurance coverage. As the summary results show, the sentiment among voters for government action to improve existing pay and benefit standards was overwhelming, if not dramatic, in the depth and breadth of the responses across age groups, income classes and regional lines.

In each of the three issue areas, our poll revealed widespread support for specific legislative proposals which would require employers to provide unpaid parental leave, would raise the minimum wage and would require employers to provide health insurance for their employees.

Support for these policies also extended to support for candidates, with strong majorities more likely to support candidates for public office who favored these proposals.

In addition, the poll signalled a change in voter sentiment regarding the role of government in our economy. Specifically, voters were much more inclined to support government establishment of standards to guarantee adequate pay and benefits, even if such standards would cost jobs.

FINGERHUT OPINION **GRANADOS RESEARCH CO.**

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A NATIONAL SURVEY OF REGISTERED AMERICAN VOTERS ON SERVICE SECTOR ISSUES

Summary Report

VIC FINGERHUT • LUIS GRANADOS • JAMES C. ROSAPEPE • HELEN F. RUBENSTEIN

The national polling firm of Fingerhut/Granados Opinion Research conducted a survey of 724 registered voters during the first week of June 1987. The survey dealt primarily with parental leave and related child care issues, the minimum wage and major health care issues.

To insure relevance to the electoral process, the survey sample was screened for registered voters.

To further ensure the absence of any ideological or partisan bias in the sample, the survey measured respondents' 1984 presidential vote choice. The results of those who recalled their choice:

Reagan	61%
Mondale	39%

indicate a sample that very closely approximates the actual voting public and -- if anything -- is slightly more Republican-voting than the nation as a whole.

Highlights of the survey results are as follows:

Parental Leave and Child Care

1. Overwhelming support exists for parental leave legislation.

   By a significant 77 to 15 percent margin, respondents indicated that the parental leave measure now before Congress is a "good idea".

   Table A in the appendix presents a demographic and political breakdown of respondents to this question. As illustrated, strong support for the current legislative proposal on parental leave exists among all age groups, across regions and across all political groups.

2. By a 2 to 1 majority, voters believe that the government or employers should provide at least partial pay for maternity leave.

   Voters responded 62 to 35 percent in favor of providing some income during leave. Again, support exists across all ages, regions and political affiliations.

3. Parental leave is good politics.
   Respondents are more likely to support a candidate who favors a parental leave policy.

   When asked if they would be more inclined to support a candidate who favored leave policies, 73% said they would be "more inclined", while only 12% said they would be "less inclined" to support such a candidate.

   ** Among "swing" voters (independents, 1988 presidential undecideds and "Reagan Democrats"), there was overwhelming support for candidates who favor requiring employers to provide parental leave.

4. Voters support expanded child care programs, even when asked if they would be willing to support such programs through their taxes.

   When the question regarding child care is phrased in tough terms, a 53 to 44 percent majority say they would be "willing to support child care programs for working parents through my taxes".

Minimum Wage

1. By a massive 71 to 20 percent margin, registered voters supported the current legislative proposal to raise the minimum wage.

   The depth of support for increasing the current minimum wage was significant. Strong support existed among all occupational groupings, age and income classes. Selected demographic and political information is presented in Table C.

   Strong support also existed for this proposal across the political spectrum, with swing voters indicating support by a two to one margin.

2. An overwhelming majority felt that the minimum wage is "too low" (84 percent) and 78 percent felt that an average minimum wage is "good for the economy".

   Support for higher minimum wages cuts across ages, incomes and regional groupings.

3. Support for an increase in the minimum wage was found despite the fact that, by a 54 to 41 percent margin, respondents agreed with the anti-minimum wage argument that "raising the minimum wage might result in some job loss".

   Voters polled felt that workers should be paid enough to survive without public subsidies, even if there was some cost to this proposal. Strong support exists for paying workers decent wages.

Health Care

1. Respondents supported government action to insure adequate health insurance coverage for working people.

   By 73 to 24 percent, voters rejected the notion that "the government should do nothing to improve health insurance coverage and just leave the issue alone".

   Almost two-thirds of the respondents felt that "the government should require all employers to offer a health plan to their employees".

2. By a two to one margin, voters supported the measure before Congress which would require employers to provide health insurance, pay at least 80 percent of the cost and subsidize low wage workers.

   Support for this measure was found throughout the sample, with 62 percent overall feeling that this proposal was "a good idea". Key swing voting groups expressed strong support for this measure.

   Details are presented in Table D.

3. Support for the issue extends to support for candidates.

   63 percent of the sample said they would be "a lot more inclined" to support a candidate for public office who favored a policy that would require employers to provide health insurance and to pay part of the cost. Another 21 percent said they would be "a little more inclined" to support such a candidate.

Political Support

1. To test the political impact of these issues, we asked how people would react to candidates who supported all the issues outlined above. Support for such candidates was overwhelming.

   The question read "Looking together at several of the issues we have discussed, suppose a candidate said he or she would fight to increase the minimum wage, improve support for child care programs, and work to provide health insurance coverage to the working people who don't have adequate coverage. Would you be significantly more likely to support that candidate, somewhat more likely, or less likely to support that candidate?"

   The findings: 78 percent more likely
   16 percent less likley

Government Action

1. When asked whether government should set standards to insure that jobs pay enough and provide adequate benefits so that workers can take care of their families, an overwhelming 81 percent answered yes.

   Four out of every five registered voters in this sample expressed support for government intervention on pay and benefits.

2. When told that some people argue that increasing standards might mean some job loss, 71 percent of the respondents believed that standards should be raised.

Respondents indicated strong support for increased standards coupled with programs to keep or create new jobs.

Conclusion

Results of the survey among a random sample of registered voters clearly illustrates strong, broad-based political support for government action to establish minimum workplace standards in three areas: parental leave and child care, minimum wage and minimum health insurance coverage. It is clear from the poll results that voters across the political spectrum perceive the "new realities" of working in America today and understand the difficult circumstances of many working people and their families.

More importantly, voters are willing to cast their ballots based on what candidates say about these issues.

Analytic Note: A "Reagan Democrat is a person in the survey who indicated they voted for Reagan for President in 1984 and a Democrat for Congress in 1986. They are representative of the most critical swing voting groups in the electorate.

APPENDIX

TABLE A -- APPROVAL OF LEAVE LAW

Q38. There is a measure before congress which would require employers to provide unpaid leave to at least one parent ... or to employees who need to care for a seriously ill family member ... do you think this measure is a good or a bad idea?

		Good Idea	Bad Idea	Neither Good/Bad	Don't know
Overall		77%	15%	5%	3%
DEMOGRAPHICS					
Region					
Northeast.	(24)	78	14	6	3
Midwest	(26)	83	12	4	1
South	(30)	71	18	7	4
West	(20)	75	16	6	3
Age					
18-30 yrs.	(21)	85	10	3	2
31-40 yrs.	(25)	79	16	4	2
41-50 yrs.	(18)	78	15	6	1
51-60 yrs.	(12)	69	17	11	3
60+ yrs.	(22)	70	18	6	6
Gender					
Male	(47)	76	17	4	3
Female	(53)	78	14	6	2
POLITICAL					
Political Party ID					
Democrat	(39)	78	15	5	2
Indep. no lean	(12)	74	21	2	4
GOP	(25)	75	16	7	2
Current Party Choice for 1988 Presidential Election					
Democrat	(36)	79	13	6	2
Lean Democrat	(11)	78	12	5	5
Undecided	(21)	75	17	4	5
Lean GOP	(22)	77	20	3	-
GOP	(10)	74	16	8	2
Reagan Democrats	(13)	75	19	4	2

TABLE B -- APPROVAL OF PARTIALLY PAID MATERNITY LEAVE

Q39. The government or employers should provide at least some partial pay during maternity leave.

		Agree A Lot	Agree a Little	Disagree Little	Disagree A Lot	Don't Know
Overall		35%	27%	16%	19%	3%
DEMOGRAPHICS						
Region						
Northeast	(24)	38	26	17	17	2
Midwest	(26)	36	29	14	20	2
South	(30)	34	23	18	22	3
West	(20)	34	31	14	18	3
Age						
18-30 yrs.	(21)	47	31	14	8	*
31-40 yrs.	(25)	39	27	20	12	2
41-50 yrs.	(18)	34	22	20	21	2
51-60 yrs.	(12)	29	24	13	30	3
60+ yrs.	(22)	23	27	13	31	6
Gender						
Male	(47)	32	28	17	21	2
Female	(53)	39	26	15	18	3
POLITICAL						
Party ID						
Democrat	(39)	44	27	13	14	3
Indep. no lean	(12)	33	27	12	25	4
GOP	(25)	28	28	20	23	1
Current Party Choice for 1988 Presidential Election						
Democrat	(36)	47	24	15	12	2
Lean Democrat	(11)	41	22	16	16	5
Undecided	(21)	29	32	15	22	3
Lean GOP	(22)	23	27	17	32	1
GOP	(10)	26	30	19	25	1
Reagan Democrats	(13)	26	30	23	22	-

TABLE C -- APPROVAL OF MINIMUM WAGE

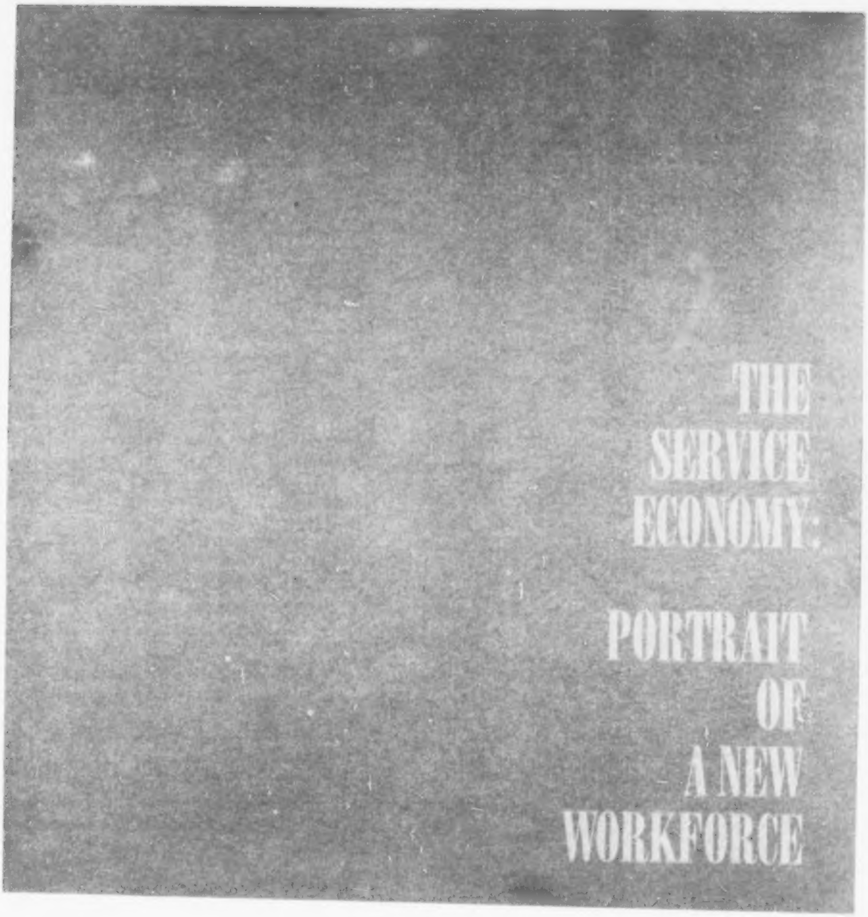
Q58. There is a measure before Congress which, if passed would raise the minimum wage in three steps -- to $3.85 in 1988, $4.25 in 1989 and $4.65 in 1990. In later years, the minimum wage would be indexed to the average hourly wage. Basically, do you think this is a good idea or bad idea?

		Good Idea	Bad Idea	Neither Good/Bad	Don't know
Overall		71%	20%	5%	4%
DEMOGRAPHICS					
Region					
Northeast	(24)	74	19	5	2
Midwest	(26)	73	18	4	5
South	(30)	66	23	7	5
West	(20)	73	18	4	5
Age					
18-30 yrs.	(21)	71	20	5	5
31-40 yrs.	(25)	74	21	3	2
41-50 yrs.	(18)	73	16	6	6
51-60 yrs.	(12)	67	22	8	3
60+ yrs.	(22)	68	20	6	6
Gender					
Male	(47)	68	25	4	3
Female	(53)	73	15	6	6
POLITICAL					
Political Party ID					
Democrat	(39)	80	11	5	4
Indep. no lean	(12)	64	25	7	4
GOP	(25)	67	24	5	5
Current Party Choice for 1988 Presidential Election					
Democrat	(36)	81	10	4	4
Lean Democrat	(11)	84	10	4	3
Undecided	(21)	60	26	6	7
Lean GOP	(22)	57	33	7	3
GOP	(10)	64	28	6	3
Reagan Democrats	(13)	63	30	7	-

TABLE D-- APPROVAL OF HEALTH INSURANCE

Q75. There is a measure before the Congress which, if passed, would require all employers to provide a basic minimum health insurance package to their employees and ... dependents. This bill would require the employer to pay at least 80% of the cost of the premium for the package. For very low-wage workers, the employers would be required to pay 100% of the cost. All workers would be included under a basic health insurance plan as a result of this bill. Basically, do you think this is a good idea or a bad idea?

		Good Idea	Bad Idea	Neither Good/Bad	Don't Know
Overall		62%	29%	16%	19%
DEMOGRAPHICS					
Region					
Northeast	(24)	67	23	5	5
Midwest	(26)	65	29	4	3
South	(30)	53	36	3	8
West	(20)	64	26	3	7
Age					
18-30 yrs.	(21)	65	29	3	3
31-40 yrs.	(25)	68	25	5	2
41-50 yrs.	(18)	61	34	3	3
51-60 yrs.	(12)	51	32	7	10
60+ yrs.	(22)	58	30	1	11
Gender					
Male	(47)	60	34	3	3
Female	(53)	63	25	4	8
POLITICAL					
Party ID					
Democrat	(39)	73	21	1	5
Indep. no lean	(12)	59	25	10	6
GOP	(25)	45	44	5	7
Current Party Choice for 1988 Presidential Election					
Democrat	(36)	74	20	2	5
Lean Democrat	(11)	73	17	3	7
Undecided	(21)	60	28	5	7
Lean GOP	(22)	43	44	8	5
GOP	(10)	46	46	4	5
Reagan Democrats	(13)	66	32	1	1

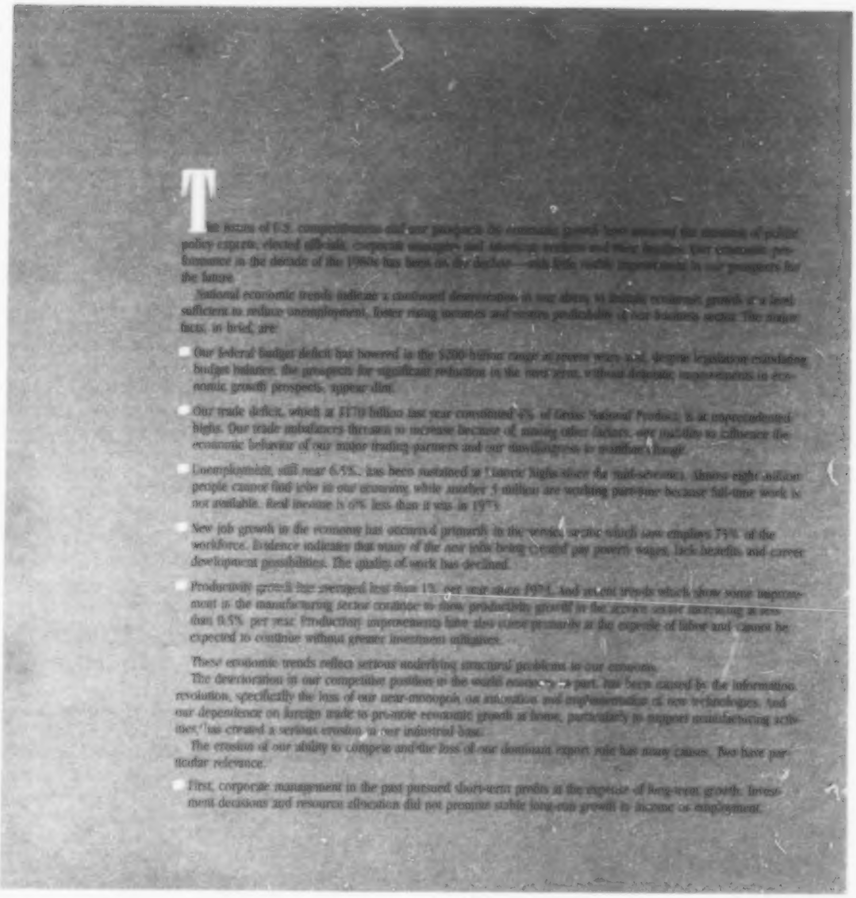


THE SERVICE ECONOMY: PORTRAIT OF A NEW WORKFORCE

By now their stories are familiar:

A former steelworker finds a part-time job at McDonald's while his wife goes to work in a large insurance company. They're getting by, but on less than they did five years ago. Child care costs stretch the family budget to the limit; health insurance fails to cover much of illness costs. Everyone hopes grandma and grandpa will stay healthy because there is no time or money if either of them gets sick or needs help.

. . . In the next town, a hospital worker fears loss of her job when her baby arrives. Her health insurance is all the family has—her husband works night shifts cleaning buildings; her job only allows her sickness leave. She worries she'll have to return to work before the baby's two month check-up.



The issues of U.S. competitiveness and our prospects for economic growth have captured the attention of public policy experts, elected officials, corporate managers and American workers and their families. Our economic performance in the decade of the 1980s has been on the decline—with little visible improvement in our prospects for the future.

National economic trends indicate a continued deterioration in our ability to sustain economic growth at a level sufficient to reduce unemployment, foster rising incomes and restore profitability of our business sector. The major facts, in brief, are:

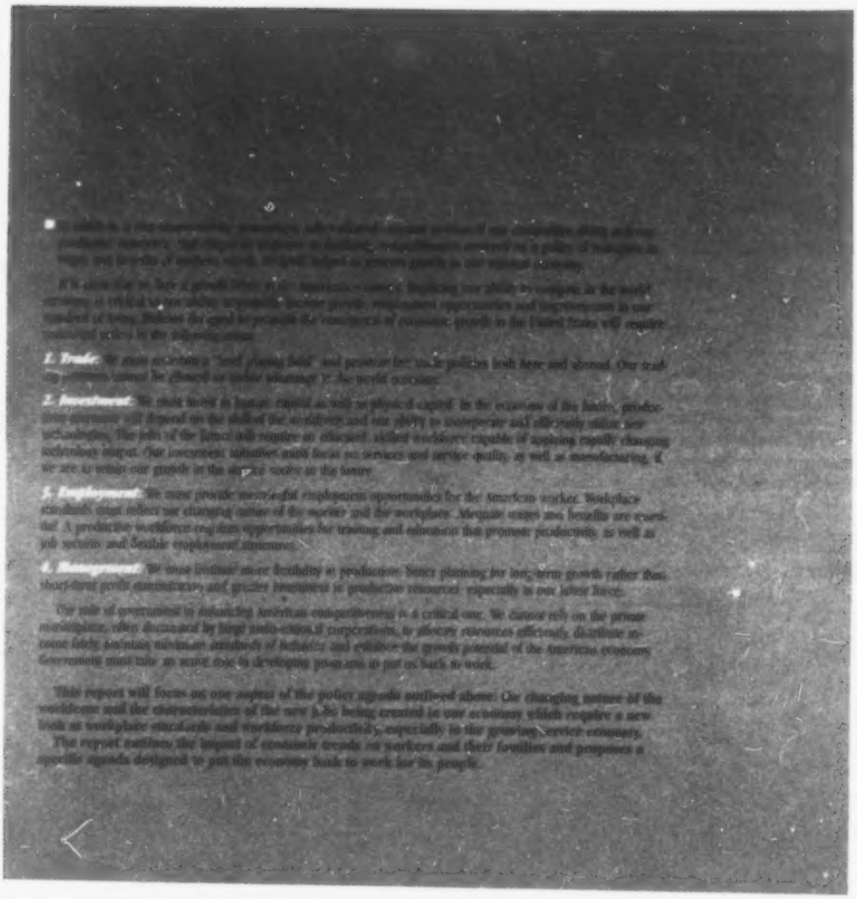
- Our federal budget deficit has hovered in the $200 billion range in recent years and, despite legislation mandating budget balance, the prospects for significant reduction in the near term, without dramatic improvements in economic growth prospects, appear dim.
- Our trade deficit, which at $170 billion last year constituted 4% of Gross National Product, is at unprecedented highs. Our trade imbalances threaten to increase because of, among other factors, our inability to influence the economic behavior of our major trading partners and our unwillingness to [illegible] change.
- Unemployment, still near 6.5%, has been sustained at historic highs since the mid-seventies. Almost eight million people cannot find jobs in our economy while another 5 million are working part-time because full-time work is not available. Real income is 6% less than it was in 1973.
- New job growth in the economy has occurred primarily in the service sector which now employs 75% of the workforce. Evidence indicates that many of the new jobs being created pay poverty wages, lack benefits and career development possibilities. The quality of work has declined.
- Productivity growth has averaged less than 1% per year since 1973. And recent trends which show some improvement in the manufacturing sector continue to show productivity growth in the service sector increasing at less than 0.5% per year. Productivity improvements have also come primarily at the expense of labor and cannot be expected to continue without greater investment initiatives.

These economic trends reflect serious underlying structural problems in our economy.

The deterioration in our competitive position in the world economy, in part, has been caused by the information revolution, specifically the loss of our near-monopoly on innovation and implementation of new technologies. And our dependence on foreign trade to promote economic growth at home, particularly to support manufacturing activities, has created a serious erosion in our industrial base.

The erosion of our ability to compete and the loss of our dominant export role has many causes. Two have particular relevance:

- First, corporate management in the past pursued short-term profits at the expense of long-term growth. Investment decisions and resource allocation did not promote stable long-run growth in income or employment.



In addition to a [illegible] competitive ability in [illegible] productive industry. [illegible] a policy of [illegible] wages and benefits of workers [illegible] helped to [illegible] growth in our national economy.

It is clear that we face a growth crisis in the American economy. Improving our ability to compete in the world economy is critical to our ability to promote income growth, employment opportunities and improvements in our standard of living. Policies designed to promote the resurgence of economic growth in the United States will require concerted action in the following areas:

1. Trade: We must maintain a "level playing field" and promote fair trade policies both here and abroad. Our trading partners cannot be allowed an unfair advantage in the world economy.

2. Investment: We must invest in human capital as well as physical capital. In the economy of the future, production increases will depend on the skill of the workforce and our ability to incorporate and efficiently utilize new technologies. The jobs of the future will require an educated, skilled workforce capable of applying rapidly changing technology output. Our investment initiatives must focus on services and service quality, as well as manufacturing, if we are to retain our growth in the service sector in the future.

3. Employment: We must provide meaningful employment opportunities for the American worker. Workplace standards must reflect the changing nature of the worker and the workplace. Adequate wages and benefits are essential. A productive workforce requires opportunities for training and education that promote productivity, as well as job security and flexible employment structures.

4. Management: We must institute more flexibility in production, better planning for long-term growth rather than short-term profit maximization, and greater investment in productive resources, especially in our labor force.

The role of government in enhancing American competitiveness is a critical one. We cannot rely on the private marketplace, often dominated by large multi-national corporations, to allocate resources efficiently, distribute income fairly, maintain minimum standards of behavior and enhance the growth potential of the American economy. Government must take an active role in developing programs to put us back to work.

This report will focus on one aspect of the policy agenda outlined above: the changing nature of the workforce and the characteristics of the new jobs being created in our economy which require a new look at workplace standards and workforce productivity, especially in the growing service economy.

The report outlines the impact of economic trends on workers and their families and proposes a specific agenda designed to put the economy back to work for its people.

U.S. Living Standards Down after Years of Progress

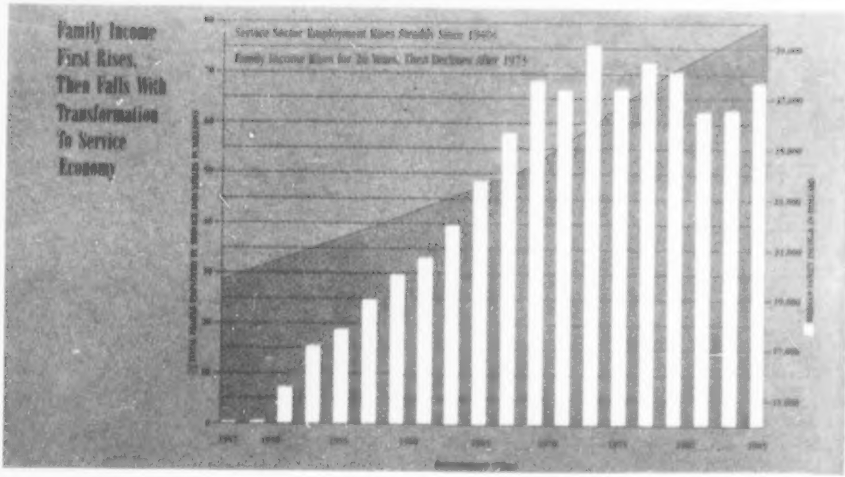
For 30 years prior to 1973 the United States' economic growth and steady evolution to a service economy (with fewer and fewer people working in manufacturing, agriculture or extractive industries) produced dramatic improvements in the population's standard of living.

In 1973, average family income adjusted for inflation had doubled compared to 1948.

But since that time, continued economic transformation has introduced a decline in the standard of living. Average family income is down 6% since 1973 adjusted for inflation, despite the fact that many more families now have two wage earners.

In the same time, more families have fallen below "average." Fewer families are in the "middle" compared to 1973.

Chart 1



Family Income First Rises, Then Falls With Transformation To Service Economy

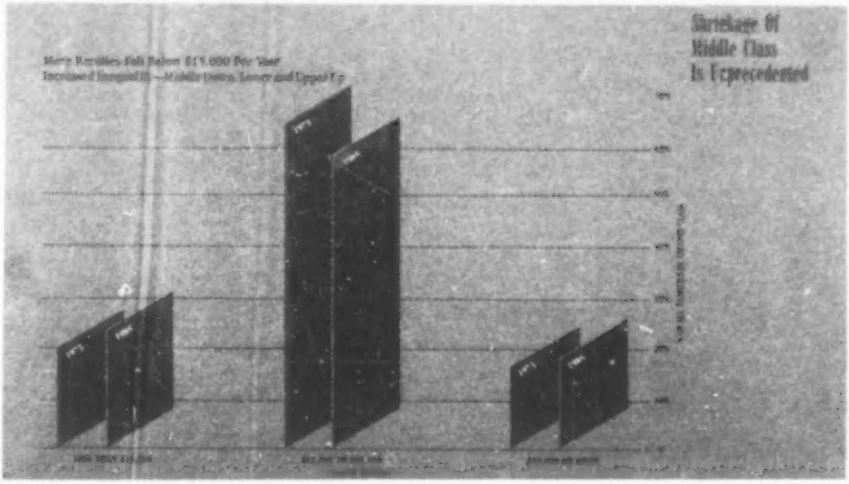
- By 1986 the bottom 40% of all families received only 14.5% of total national earnings.
- 2 out 5 of families average less than $17,500 per year from all income sources.
- In stark contrast, the top fifth of families increased their share of earnings to 43.7%; **the top 5% now receive 16.7% of all earnings, more than the total of the 40% of all families at the bottom of the income scale.**

Younger families just starting out are particularly at risk. Given current trends, young men and women can expect to earn an average of 25% less throughout their lifetimes than the generation 10 years earlier — **a reversal of the American dream.**

To try to stay even, families have increased their workloads:

- Most women today are working for wages.
- 5.7 million people work at more than one job, a 24% increase since 1980.
- A full 71% of all people over 16 and under 65 are working — the highest proportion in U.S. history.
- If individuals and families had not increased their workload, family income would have declined an estimated 18% since 1973.

chart 2



Growth of Service Industry Corporate Giants Coupled with Low Wage Policies

Why are living standards down?

Popular mythology often assumes declining incomes are a natural outgrowth of an economy in which nearly 3 out of 4 people work in public or private service jobs and industries.

The growth of a service economy typically evokes images of "mom and pop" stores struggling to provide local personal services to their communities.

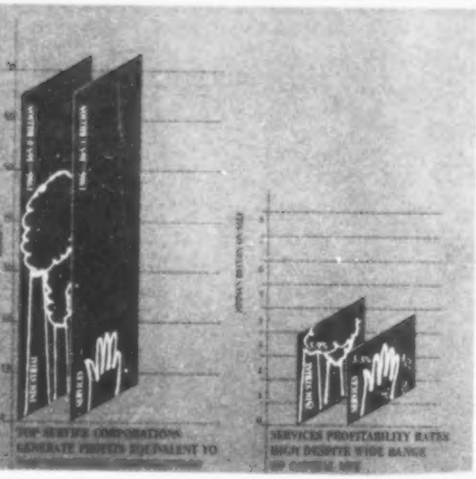
But in fact, the evolution of the U.S. service economy has produced **new service industry corporate giants.** The top 500 service corporations together employ 10 million people. Fortune magazine has begun to track these corporate empires with a new **Fortune Service 500** series that looks at sales, assets, profits and employment.

chart 2

Service Companies Aren't "Mom & Pops"

Between 1984 and 1986 net income for the Fortune 500 Industrial Corporations has fallen 19.8%.

At the same time, the Fortune 500 Service Corporations net income has increased [illegible]. As a result 1986 net income profits for the two groups is equal.



TOP SERVICE CORPORATIONS GENERATE PROFITS EQUIVALENT TO [illegible]

SERVICES PROFITABILITY RATES HIGH DESPITE WIDE RANGE OF CAPITAL USE

In economic performance, profits and wealth the **Service 500** now rival the **Fortune Industrial 500**—the largest U.S. manufacturing corporations. (See Chart 1.)

In fact, in recent years many corporations have jumped off the **Industrial** list onto **Services** by getting out of manufacturing and into insurance, banking, health care, transportation, food or some other service production. American Can is now Primerica and producing "financial" services. Greyhound is out of buses and into food processing and services.

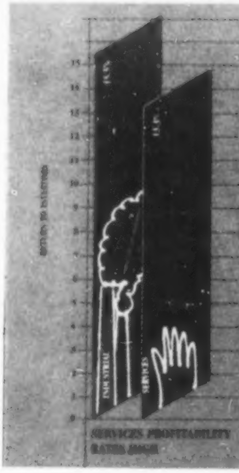
A few comparisons illustrate the dimensions of the new service industry corporate world:

- **Chrysler and Beverly Enterprises** (a nursing home chain) now employ roughly the same total workforce—Chrysler 115,000 and Beverly 116,000.
- **Hospital Corporation of America's** $4.6 billion in "sales" and 80,000 employees rival **General Mills'** $4.5 billion and 62,050 employees.
- **McDonalds** now pulls almost as much in sales ($4.1 billion) as **Bethlehem Steel** ($4.3 billion).
- **Sears** rivals **Mobil Oil**. ($44.2 billion versus $44.8 billion sales.)
- **Metro Life** insurance rivals **Monsanto Chemical** and **LTV** in income—all are above $6.5 billion.
- Five health care corporations topped $2 billion in revenues.

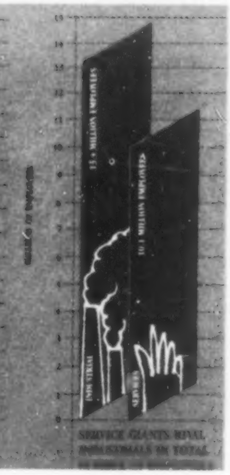
At the same time, many of the service industry giants retain an image of "small" employer in local economies.

But these new service industry giants are not unprofitable "moms and pops." And their all too prevalent policies of paying poverty level wages leads to taxpayer subsidy of some of the nation's largest corporations.

It's a subsidy composed of food stamps, public assistance and public health care consumed by workers who make so little they cannot pay for the bare necessities of life.



SERVICES PROFITABILITY RATES HIGH



SERVICE GIANTS RIVAL INDUSTRIALS IN TOTAL

Vast Majority of Men and Women Now Work in Service Industries

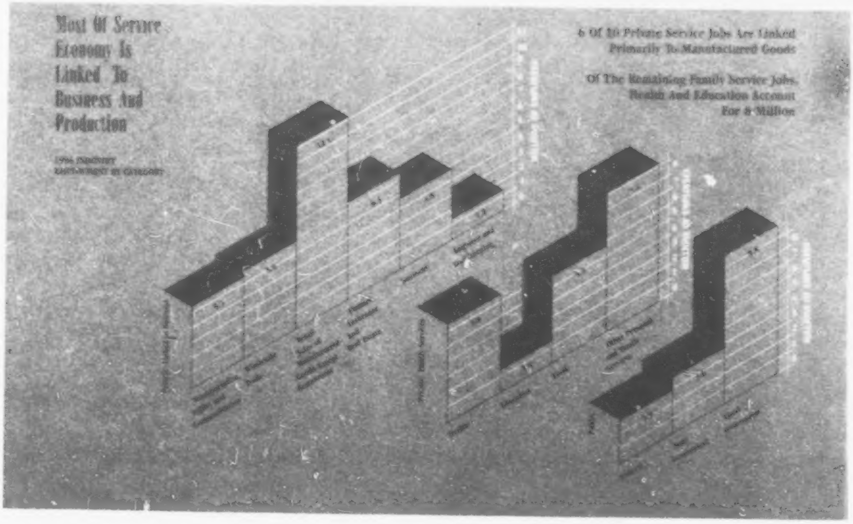
The continuing evolution of the U.S. service economy has dramatically changed jobs as well as U.S. corporate structure.

Today the vast majority of wage earners, men and women, work in banks, offices, stores, restaurants, insurance companies, data processing, nursing homes, hospitals, business services or for the government. Factory and farm employment was down to only 22% of all jobs in 1986.

Service industries and jobs are diverse, with a broad range of skill and compensation.

Again the facts show a picture far different from common images of personal consumer services as the main growth category.

chart 4



A Change in Direction in Corporate and Public Job and Wage Policies

Having a Job Used to Mean a Chance for a Decent Standard of Living.

Since the 1970s this Implicit "Social Contract" with Industries Has Disappeared:

Until the 1970s, U.S. service and manufacturing industry development linked rising standards of living with economic growth.

A largely unionized workforce in manufacturing set job standards. Having a unionized job meant opportunity, an ability to support a family and economic security.

News of higher employment levels was seen as a signal of prosperity.

Public policy implicitly assumed that collectively bargained contracts would set the standard that "nonunion" employers would have to try to match to hold on to committed employees.

New unionization in service industries looked to close the gap between the service and manufacturing pay standards. The goal: a steady evolution of the economy so that having a job would continue to mean an ability to achieve a decent standard of living.

Competitive pressure from the world economy, coupled with U.S. corporate ability to choose production sites around the world, has clearly changed the U.S. economic environment since the mid-1970s.

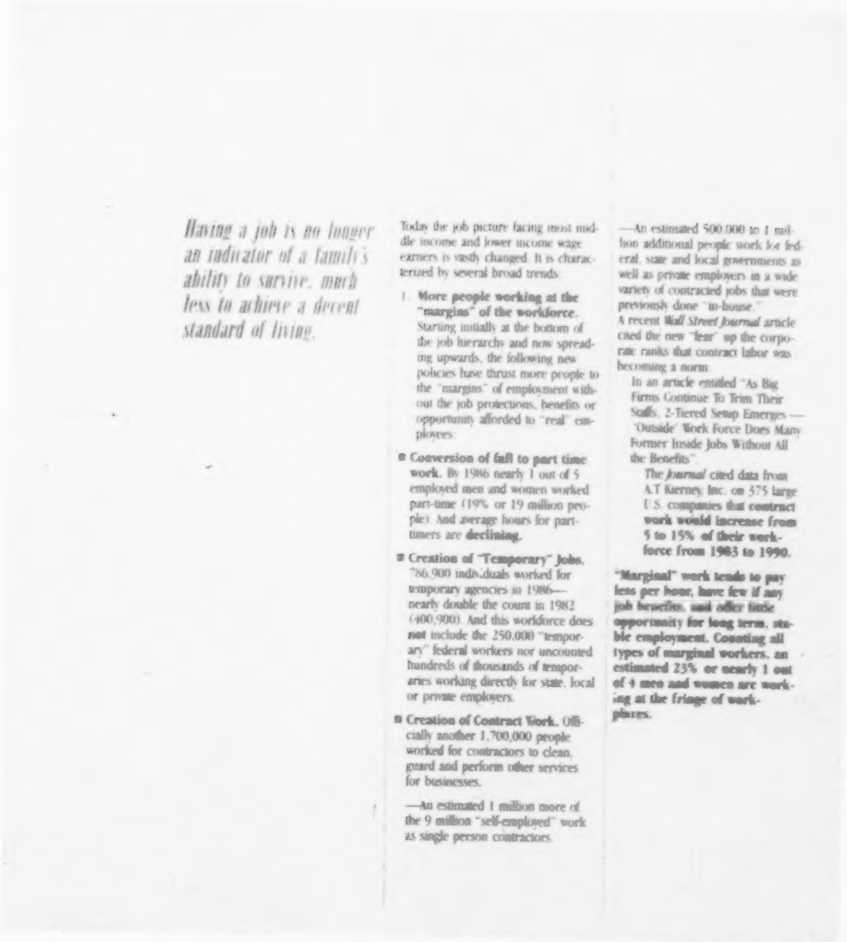
With the widespread image of a more "hostile" environment, U.S.-based corporations were confronted by two very different choices:

1. Improve product quality and productivity by investment and innovation while looking to public policy to "manage" trade, or
2. Turn back the clock on U.S. job standards to attempt to make U.S. products "cheaper" rather than better.

In the 1970s and 1980s, U.S. corporate and government leaders chose the second route — to lower job standards in order "to compete."

The shift to a largely unorganized workforce and away from union strongholds in manufacturing meant there was no organized opposition to this "reduced standard of living" job strategy.

As a result, having a job today is no longer a good indicator of a family's ability to survive, much less to achieve a decent standard of living.



Having a job is no longer an indicator of a family's ability to survive, much less to achieve a decent standard of living.

Today the job picture facing most middle income and lower income wage earners is vastly changed. It is characterized by several broad trends:

1. **More people working at the "margins" of the workforce.** Starting initially at the bottom of the job hierarchy and now spreading upwards, the following new policies have thrust more people to the "margins" of employment without the job protections, benefits or opportunity afforded to "real" employees:

- **Conversion of full to part time work.** By 1986 nearly 1 out of 5 employed men and women worked part-time (19% or 19 million people). And average hours for part-timers are **declining.**
- **Creation of "Temporary" Jobs.** 786,900 individuals worked for temporary agencies in 1986—nearly double the count in 1982 (400,900). And this workforce does **not** include the 250,000 "temporary" federal workers nor uncounted hundreds of thousands of temporaries working directly for state, local or private employers.
- **Creation of Contract Work.** Officially another 1,700,000 people worked for contractors to clean, guard and perform other services for businesses.

—An estimated 1 million more of the 9 million "self-employed" work as single person contractors.

—An estimated 500,000 to 1 million additional people work for federal, state and local governments as well as private employers in a wide variety of contracted jobs that were previously done "in-house."

A recent *Wall Street Journal* article cited the new "fear" up the corporate ranks that contract labor was becoming a norm.

In an article entitled "As Big Firms Continue To Trim Their Staffs, 2-Tiered Setup Emerges — 'Outside' Work Force Does Many Former Inside Jobs Without All the Benefits".

The *Journal* cited data from A.T Kierney, Inc. on 375 large U.S. companies that **contract work would increase from 5 to 15% of their workforce from 1983 to 1990.**

"Marginal" work tends to pay less per hour, have few if any job benefits, and offer little opportunity for long term, stable employment. Counting all types of marginal workers, an estimated 25% or nearly 1 out of 4 men and women are working at the fringe of workplaces.

Reduced pay and benefits for jobs by fiat or concession bargaining [illegible] Nonunion workers face a wage growth [illegible] lower than workers [illegible] a year ago [illegible] 8 to 10% of unionized workers [illegible] only for nonunion employers.

Elimination of higher wage jobs altogether by moving production off-shore or getting out of a higher wage business altogether. The two million manufacturing jobs lost since 1979 paid an average of $20,840. By contrast, nearly half of even full-time new jobs created during the same period paid below poverty-level wages ($11,400 for a family of four).

A Reduction in the Minimum Wage: The purchasing power of the national minimum wage — the floor under most public and private wage scales — has declined 27%. The minimum wage has been frozen since 1981.

Full time work at the minimum wage leaves a family of two or more people in poverty.

The 6.5 million men and women working at the minimum wage earn barely enough after taxes to pay for child care. A single parent thus **can not** afford to go to work and pay for child care at the minimum wage. **As a result, the minimum has become a barrier to helping parents of impoverished families with children find jobs.**

> ***With a low wage economy, employers can exploit "cheap" labor and avoid necessary innovations to improve products and increase productivity. Essentially, corporations can "waste" human resources.***

With below survival minimum wages, **employers can exploit "cheap" labor and avoid necessary innovations** to improve products and increase productivity. Essentially, **corporations can "waste" human resources.**

These policies **have** produced short-term profits and an illusion of growth. These policies **have** produced more "jobs." But the combination of these deliberate job policy choices means that today's jobs no longer mean an ability to support decent living standards.

...and the trend is toward more decline.

chart 3

Shift In Corporate Policy

Job Standards Decline

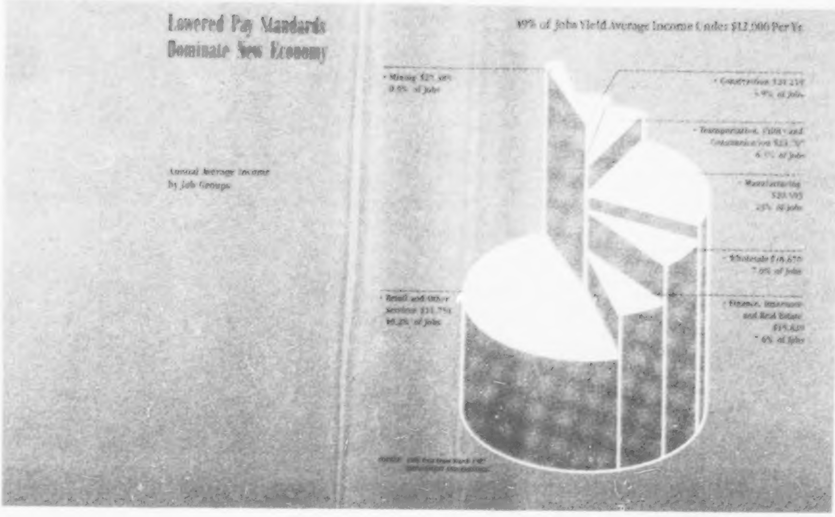
Despite often higher education, training and "flexibility" job requirements, the new U.S. "service economy" workforce is seeing job standards decline across all job hierarchies and industries.

The bulk of women and men working to produce services share a common plight—low pay and benefits and declining working conditions. This is true regardless of the wealth of the employer or the skill level of the job.

Instead of continuing to "catch up" to a manufacturing job pay and benefit standard, all industries are now looking to emulate lower "service" industry job patterns and policies.

As of 1986, service industry pay policy standards had become dominant, as illustrated by Chart 6.

chart 6



- Nearly half (48%) of all jobs were in retail and a broad area of business, health, education and personal services. Taken together these jobs paid an average annual income of $11,754.
- Another 7% of jobs were in finance, insurance or real estate, paying $15,829 average annual income.
- Only transportation, public utilities and communications paid incomes at or near manufacturing standards but these service industries provide only 8% of all jobs.
- Manufacturing jobs, by contrast, averaged $20,914 annual pay in 1986.

Low Benefit Standards

Even these annual pay comparisons understate the extent to which service and other industries are pursuing new low job standards. The dominant service jobs tend to provide few benefits—even basic health benefits are missing.

- Nearly one out of four people employed in retail and business services had no health insurance in 1986.
- Two-thirds of year-round workers without health insurance worked in service industries (9 million full-year workers).
- Even where health benefits exist, the value and quality of coverage tend to be low. For example, employers spent $1,968 per year per employee on coverage for health benefits for manufacturing employees compared to $1,257 per year for retail workers and $1,070 for health care workers.

These new job policies have produced a surge in the number and proportion of uninsured families and children.

- By 1986 the total number of people under 65 without health insurance had increased to 37 million—17% of the population.
- 30.5 million of the uninsured (over 80%) were adults with jobs or their dependents.

By not counting benefit levels, national statistics showing declining family income actually understate the decline in family living standards resulting from job policies.

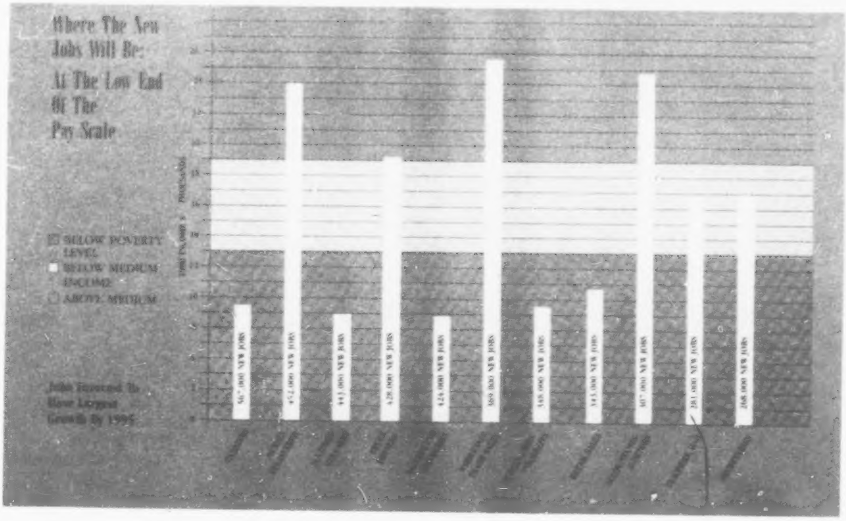
Pay and Benefit Trends Likely to Continue

A look at where job growth is projected over the next decade indicates that this lowering of job standards is likely to continue, absent policy changes.

Although "high tech" professional job growth forecasts have made the news, such jobs employ relatively small numbers of people. The most rapid growth in new jobs continues to be at the low end of the pay scale, irrespective of the skill or training required for the jobs.

- Forecasts of job growth estimate that eleven job categories will account for 4.2 million new jobs by 1995—the bulk of new jobs.
- Even assuming full-time employment, only four of the eleven paid more than $17,000 per year in 1986.
- Five paid wages at or below poverty income for a family of four ($11,400).

Chart 2



EXAMPLE: Beverly Enterprises, the nation's largest nursing home chain, operates 1,200 homes across the U.S. Wage and benefit policies in each home [illegible]. Unionization has been able to push up standards only after organizing the bulk of homes and [illegible] a new standard.

Reduced Workplace Size Requires Industry-wide Standards [illegible]

Industrial change has also decreased the size of workplaces. Today more than half ([illegible]) of all wage earners work at workplaces employing less than 100 people (see chart [illegible]).

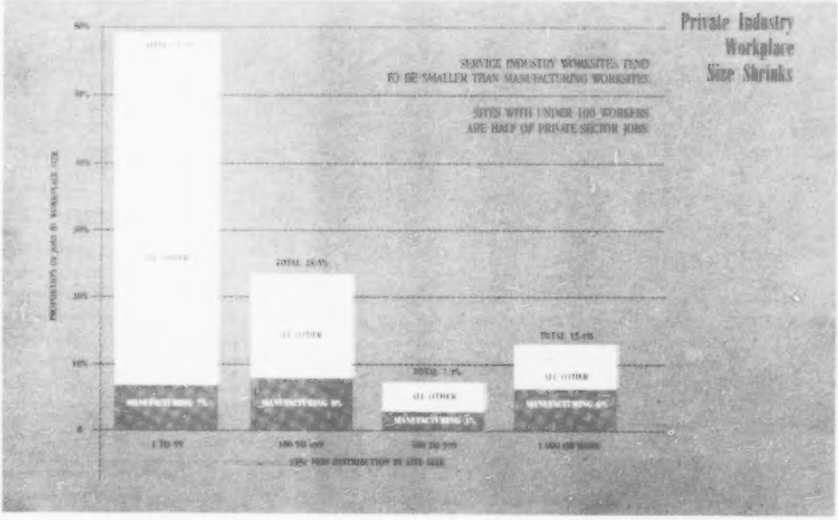
Although many of the smaller workplaces are part of a large company, corporations have been able to set [illegible] per site with little [illegible].

[illegible] the [illegible] U.S. reliance on [illegible] of large size workplaces to set [illegible] for [illegible] workplace standards no longer [illegible] industry [illegible].

The economy is dominated by corporations divided into [illegible] smaller workplaces [illegible].

[illegible]

chart 3



Workforce Demographics Change: The Changing American Family—Working Women Now the Norm

Moving toward job policies that conserve rather than waste human resources is vital to our economy. Today these policies must also take into account that the workforce itself has changed, creating new requirements for job design and benefit structures to enable men and women to balance work and family responsibilities.

Declining pay means American families today need two paychecks to afford a decent standard of living. Whatever the preference of mothers or fathers, they must work more hours to achieve past living standards.

The average income for single parent families with one wage earner now falls below the lower end of middle class standards.

Even two parent families have failed to stay even with income standards of thirteen years ago. Average incomes for married couple families are down 3.5% since 1973.

A few statistics illustrate the necessity of women working outside the home even in two parent families:

- If women had not entered the wage-earning workforce in record numbers in the 1970's, family income would have plummeted 18%.
- 25% of American working wives are married to men who earn under $10,000/year; 41% of American working wives are married to men who earn under $15,000/year.
- 1 of every 4 full-time American workers does not earn enough to keep his or her family out of poverty.

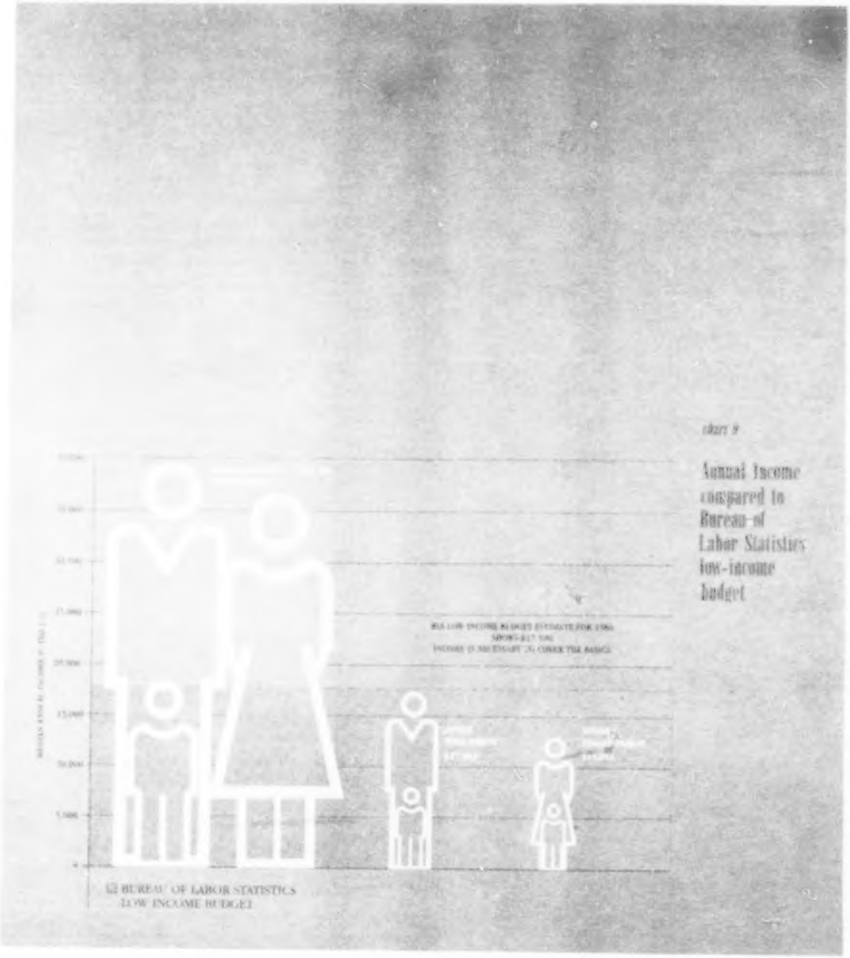


chart 9

Annual Income compared to Bureau of Labor Statistics low-income budget

The New American Family and Workforce: Two Earners and Single Parents

Choice and necessity have revolutionized family structure and work patterns.

- Less than 1 in 10 families (7%) fits the 1950s image of a working husband, a homemaker wife and children.
- Over half of all families with children under the age of 5 have working parents; this is the most rapidly growing segment of the workforce.
- In ten years, demographers forecast that three-fourths of all children will have wage-earning mothers.

At the same time, **single parents** head more families than ever before due to changed cultural patterns. One out of five children today lives in a female-headed household. Half of all American children will spend part of their childhood in a single parent household.

Single parent families must rely on the earnings and benefits of one parent to support their family or turn to welfare. They have no "wives" to send to work.

Discriminatory Pay for "Women's" Work Continues

Women's and men's work patterns have become more nearly equal. Yet past pay practices which discriminate against jobs held predominantly by women continue.

The fact that more women have become their families' sole source of support or provide the difference between low or middle incomes for two-parent families underscores the need for wage policies that pay women fairly.

chart 10

Today Most Women With Children Work

PERCENTAGE OF MOTHERS WITH PRESCHOOL CHILDREN IN THE LABOR FORCE

Jobs and Families in Conflict

[illegible]

As a result, the national economy and employers must rely on a workforce that is nearly half (44%) female. By the 1990s, women will hold more than half of all jobs.

[illegible]

Income statistics alone fail to capture the threat to American family living standards.

[illegible]

U.S. Falls Behind the Rest of the World

Other countries have adopted public policies that put new job policies in place and respond to changing family-work patterns:

- All of Europe and Japan now have family leave policies that provide at least 6 months (Europe) or 12-14 weeks (Japan) paid leave with full job guarantees.
- Other countries have instituted national policies of pay equity. The U.S. wage gap is now among the largest in the industrial world despite more women working.
- West Germany, Sweden and Japan in particular have succeeded in producing rising family income levels throughout the 1970s while competing in world markets.
- Productivity levels are rising in those countries with deliberate policies to improve jobs by [illegible] toward [illegible] and by rewarding work.

New Policies for New Times

In 1985, the Economic Policy Council of the UNA-USA declared in its special report, "Work and Family in the U.S.: A Policy Initiative":

> Our national interest will best be served if we can enable working parents to concentrate on their jobs without neglecting their families.

Multiple corporate analysts echo the conclusion that the changing structure of the family demands new social workplace standards for the health of the family and the nation.

Basic job standards [illegible] must build family expectations that the economy will reward work and provide [illegible] with a decent standard of living.

New minimal job standards are essential to give communities ground[illegible] that economic change must improve jobs and not come at the expense of wage earners.

Pro-family Policies Are Good Economic Policy

As in the 1930s, the current "attack jobs" policies are crippling U.S. productivity and economic growth as well as pulling living standards down.

- U.S. productivity slowed in the late 1970s and 1980s to less than 1% per year compared to its 2.7% average growth between 1960 and 1970.

  —U.S. labor costs are already relatively "cheap" given the education and skill level of the workforce. Even in high wage manufacturing industries, labor costs come to only 15% of total costs, according to the National Association of Accounting.

  —In labor-intensive hospitals, labor costs are down as a proportion of total costs—46% in 1985 compared to 61% in 1965.
- Lack of leave policies and child care for working families has increased absenteeism, reduced morale and attention at work, and pulled productivity down.
- The combination of expensive child care and low minimum wages bars impoverished women from taking jobs, despite an estimated $6,000 in welfare cost savings for every $2,000 spent on child care.
- A pervasive low wage policy restrains economic growth and consequently flattens the economy.
- Increasing gaps in health insurance coverage have already resulted in reduced use of preventive care for children, women and other working adults suffering from chronic disease.

In short, current job policies are bad for the economy as well as for its people.

Even *Fortune* magazine now writes articles that conclude:

> "**Cutting Costs without Cutting People** ... By changing the way work is done, launching a blitz of new products and retraining workers for new jobs. Such tactics often prove cheaper than firing." May 25, 1987.
>
> "**Lessons from German Manager**
> And above all, pour lots of money into training programs for the kids." April 27, 1987.

A Call for Action

Fifty years ago and more, the widespread failure of corporate policies to put the economy to work for its people brought about a revolution in social and economic policies.

Out of a concern over the effects of unfettered industrialization on workers and their families *and* the economy, a set of federally established minimum standards was passed, including minimum wage, child labor laws, social security, the forty hour week and basic workers' rights to organize into unions.

Today our society needs a new set of standards to put corporate policy on the side of families and to reflect the needs of the new workforce.

The new standards must address job structure and training issues as well as set minimum pay and benefit floors.

Key components must include:

- Wage and benefit policies that can support families.
- Innovative job design and leave policies to balance work and family demands.
- Education, training and retraining policies that conserve rather than waste people and their experience.
- Community based and workplace child care programs to care for and nurture and educate children of working parents.
- And in general, a new public and private accord that recognizes history's lessons—that rising living standards are necessary, and not a barrier to economic growth.

Public activism is essential to re-instate balance and a public-private agreement that **the goal of economic growth and industrial development must be to benefit the population.**

In the interim, first **minimal** steps are urgent to put a floor under wage earning families and begin working toward a new set of economic ground rules.

- **Family Leave:** Enactment of national parental and dependent care minimal workleave standards.
- **Child Care:** Increased funding for and development of decent child care services.
- **Minimum Wage:** An increase in the minimum wage floor to reward work with survival pay.
- **Pay Equity:** Enactment of pay equity, including instituting pay equity for Federal workers to make the Federal government a model employer.
- **Health Benefits:** For the first time, a guarantee that anyone willing and able to work will be insured for basic health care services.

Chairman MILLER. Mr. Levy, in the press from time to time over the last several months, there has been a suggestion by some economists and people in the public policy arena that the current economic expansion that we are experiencing has been driven by—and you touch upon this in your testimony—the tax reduction, which kept some things going; people sending a second wage earner into the work force; and, finally, the use of institutional and personal debt to keep this consumption and this cycle going.

If that is true, it would seem to me there comes a point at which you bump up against some ceilings here where you can't continue that effort. If debt is, as I said in my testimony, 88 percent of disposable income, there comes a point where that cannot continue to expand if you are still to manage all of the other obligations of a family. In fact, maybe some of that debt is created to manage those necessities, that all of that debt wasn't just for unessential activities of a family. Some of it may have been created to finance health care or education, or what-have-you.

Where does that tell us we are going? If you start to reverse that trend and you say, "okay, you have got to start paying down some of this debt," are families in a position to reverse that trend? Or are they stuck as the Federal Government appears to be, with this $180–200 billion debt that is starting to look very permanent no matter what we do or tell our constituents? It kind of sits there like a heart beat. I just wonder where we are in this trend line.

Mr. LEVY. I think in terms of living standards, my sense is that living on debt has pretty well run out, and the question is, is there some other cavalry that is going to come to the rescue to keep the expansion going?

Briefly, I think you want to think about the Federal deficit and personal debt in exactly the same way, because if you think about the pressures on the Government that created that deficit, it was to give big tax cuts without cutting expenditure, and that was a way of putting more money in people's pockets, just like if they run up on Mastercharge it puts more money in people's pockets. The only way we were able to do that is because other countries were willing to lend us for a time large amounts of money. That seems to be pretty well exhausted now.

So there are two possible things that you hope will come to the rescue before you start seeing significant slowdowns or declines and additional declines in living standards. One is that as the dollar falls exports start picking up, and we are seeing some of that already, and you hope that that process happens fast enough to really give the economy some boost.

The other, which we are still holding our breath about, is that output per worker starts rising and that real wages start rising again. This expansion has been very good in terms of creating new jobs. What it hasn't done is to get the kind of increase in output per worker that was typical for the postwar years up through 1973 and that was responsible for rising living standards.

I don't think anybody can give you a real answer as to why that hasn't happened economy-wide. If it does, there will be money there to allow wages to start rising again, and that will be another way that we can forestall that.

So those are the two possible rescues: more exports just to keep the economy going and rising output per worker to get wages back again, and the question is, will they come? I don't know the answer to that. If somebody does know the answer to that, you want to sign them up right away.

Chairman MILLER. But it would appear at least that at some point there are going to have to be two reversals that take place within that context. One is the pay-down on private debt, on family debt. There is going to have to be some payment made on that debt.

Mr. LEVY. That is right.

Chairman MILLER. Like all debt, it is going to get heavier and heavier just to service that debt, so even if you get an increase in real wages you may be dedicating that which might have gone to consumption to pay off old debt.

Mr. LEVY. That is right.

Chairman MILLER. And at some point there is going to have to be a reversal at the Federal level, because you are going to have to have additional revenues just to manage the debt at current levels, if that was your goal. Forget a balanced budget. If your goal is just not to have an increase, you are going to have to have a reversal.

I guess my follow-up question would be, to what extent does debt reduction negate what may take place in terms of increased productivity, real wages, or the possibility of a dramatic export expansion?

Mr. LEVY. The answer is, if something good does happen, then you can hold it to a draw. There is enough money to start paying off some of this debt without seeing actual declines in living standards. If good things don't happen, then the pay-off of debt will require declines in living standards. So the question is, can you hold even or are you going to have to take a loss?

Chairman MILLER. Mr. Bartlett, on the discussion of the service sector and the makeup, obviously, Ms. Schoen has a somewhat different approach to it than you do. But more recently, it seems to me that there is now discussion in the public press that when we talk about this service sector and whether these are low-paying jobs and the expansion—and you mentioned the fact, or at least I heard you to say that the real expansion in the service sector now is taking place at the upper levels as opposed to the lower levels—people who write and defend the transition to the service sector very often now insist that when we talk about the service sector we consider the chairman of the board of IBM in the service sector as well as people who are doing assemblage work for that same company; and therefore, when you average it all out, the wages look pretty good.

My question is this: Is there really an expansion in terms of numbers and wages at the top level, or is it possible that, as we see in California, once the lower wage jobs were determined and established and the process was ironed out, it was shipped off overseas, and that job, in fact, disappeared. That would give you a higher average in hourly wages within that industry, because you have subtracted the lowest portion out and transferred it overseas. I don't know that to be the case, I am just putting together the popular press here; I am trying to figure out what is fact or fiction.

Mr. Bartlett. I was making my statement based on the BLS's classifications of occupations, which brings up a problem—namely, how do you determine what is a service job and what is a manufacturing job?

I mentioned briefly in my testimony that in the past you had, say, an accountant working for Ford Motor Company. He is counted as a manufacturing employee in the BLS statistics, and if Ford decides to hire an outside accounting firm to do their accounting and eliminate this person's job on the Ford payroll, all of a sudden you have had a shift of jobs from manufacturing to services, and I think that is a lot of what is going on.

But I don't think that the data necessarily suggest that if somebody is, in fact, working for a manufacturing company, such as IBM, even though they might be doing something that might be considered a service rather than working on an assembly line, that that is not included in the data in the trend.

Basically, I was talking about things like the fact that lawyers and accountants and various occupations that are relatively high paying tend to be the expanding ones, and the manual labor, ditch digger type things are not the expanding numbers. So that is where I got what I was saying from.

Incidentally, if I could just say something on this debt question, I think it is very important to point out that debt as a share of assets has not risen very much. So the increase in debt has been matched by an increase, in a sense, in people's ability to pay for it. They could sell assets if they chose to. In fact, a lot of this debt was used to acquire assets. During inflation, it makes a lot of sense to go into debt and buy a house. But that is not the same thing as just going into debt on your Mastercharge to buy dinner. It is not the same thing, because you have got an asset there, and I think if you calculate the data in those ways you get somewhat of a different picture of this debt question.

Chairman Miller. I think, for the purpose of conversation, there is some difference. My concern is that we are now watching home equities being used to buy the dinners.

Mr. Bartlett. That is a function of the tax changes.

Chairman Miller. Whatever it's a function of, my concern is, at what point is the liquidity of a family used up and do we find ourselves with serious problems? I don't know. That is somewhat relative in that discussion.

Ms. Schoen, do you want to respond?

Ms. Schoen. Yes. As I noted, we submitted for the record a small pamphlet, and I think it is important to make the distinction between percentage change in jobs and absolute growth in jobs. If you look at the top 20 or top 10 on the list of job growth, the Department of Labor is saying it is cashiers, custodians and sales workers. The accountants, the computer techs, are big in terms of percentage change. I think it is important not to mix the two of them in terms of where the jobs are likely to be.

Chairman Miller. Just one final question, and that is, where would we have been over this time frame, 1973 to the present, had not women entered the work force or the spouse entered the work force to make a two-earner family? And where are we in resolving the issue of some people suggesting that, should they choose to do so, women could leave the work force and go back home? I just wonder where we are in terms of that being dictated by economic necessity.

Mr. Levy. Are you asking me?

Chairman Miller. Well, I am asking the panel where you believe we are. Is that reversible? It is hard for me, just in my casual conversations with my friends, to believe that they have the ability to give up that income. Again, I don't buy into the notion that this is all a lark and a luxury. When I see where they are spending the money, it looks pretty fundamental.

Mr. Bartlett. I suppose one might argue that if women second earners hadn't entered the work force in such large numbers and the same number of jobs had been created that we would have had extremely low unemployment. In fact, we probably would have had labor shortages, which presumably would have bid up real wages for those people that were in the work force. So it is hard to say how things would have turned out if things had been different.

Mr. Levy. I find no evidence for that view at all. I think the basic determinants of wage problems over the last ten years had a lot to do with big increases in oil prices and the problems of U.S. industry adjusting to very slow growing markets and a very different kind of world economy than we had in the 1950's and 1960's.

If women hadn't come into the labor force, the wages of men would have been a little bit higher than they otherwise were, but nothing like the kinds of growth we had seen in the 1950's and 1960's, and you have to believe that if family incomes declined by 4 or 5 percent with two earners they would have declined by 10 or 12 percent without the increase in two earners.

The bottom line is that women coming into the labor force makes for a lot more work effort in the society, because you are not cutting down on what is going on very much at home and you are doing market work. So, really, the number of hours of work has increased by that. So that is what is allowing people to buy more houses, and so on and so forth, because there is more work effort being done.

Ms. Schoen. The Joint Economic Committee put out a statistic about a year ago of an 18 percent decline if women hadn't entered the work force as one way of looking at it. I think another way is looking at what two-earner families make versus one-earner, whether they are man with wife at home or a single head of family. A single earner now averages roughly $17,000 to $18,000 a year no matter what kind of family they are, which is at the lower edge of what the Department of Labor says is a low budget, a bare survival budget; there is not enough money there.

If you talk to any working family, basically, they see it as a necessity at this point for two paychecks.

I guess the other statistic that is just beginning to come out are intergenerational kinds of problems. The kind of job policies I describe mean that the new entrant into the work force, the new hire, is receiving less. Two-tiered, contract work is lower paid work. It may be for the same manufacturer, but it is at a much lower wage, the custodian who now works for a contractor.

The Department of Labor has a longitudinal study that they are just beginning to get results from that show that people who have entered the work force in the last five years compared to their cohort ten years ago are earning 25 percent less when you adjust for inflation, and this is men are earning less and women are earning less. It is a track that, if it continues, means that this next generation not only is working harder but getting considerably less for their work effort.

Chairman MILLER. Congressman Coats.

Mr. COATS. I would like to get into the question of children in poverty, and I think it was Mr. Levy who said that about half of the increase in the number of children in poverty was the result of single-parent families. Do the other panelists agree with that, or have you looked into that particular question? Let me just start with that question.

Mr. BARTLETT. I haven't really looked into that.

Mr. COATS. Okay. Mr. Levy, those statistics come from where?

Mr. LEVY. From the Bureau of the Census.

Mr. COATS. So that would have a decided impact on the overall numbers in terms of average wages, average family income, and so forth, particularly for a particular class of people, wouldn't it?

Mr. LEVY. In terms of determining the number of children in poverty, the growth in the number of families headed by women has been quite important. In terms of what has happened to median family income, it really hasn't been very important.

Mr. COATS. Why not? Because it is such a small percentage of the whole?

Mr. LEVY. Because it is a relatively small percentage.

Let me give you an example. You recall back in the mid-1960's that the U.S. Department of Labor discovered this issue of female-headed families. That is when Senator Moynihan wrote the Moynihan Report, and so on and so forth.

Despite the increasing number of female-headed families during the 1960's, median family income for the Nation as a whole still increased by about 30 percent in real terms from 1960 to 1970. So it just isn't a big enough number to really affect that.

Mr. COATS. It definitely has an effect, though, on the types of families and of children that we look at here in this committee in terms of the problems faced. Isn't it pretty much a fact that many of those mothers that are thrown into the work force, so to speak, out of necessity. Bring to that low education levels and low skill levels and therefore their only entry way is through low paying jobs?

Mr. LEVY. Absolutely.

Mr. COATS. I would like your opinion, and the others on the panel, on what an increase in minimum wage, as legislation we have proposed, would do to the ability of some of those people to find employment. Some would argue that those low paying jobs then would flip over to automated jobs or pick up higher skilled workers and freeze out first-time entrants into the work force.

Mr. LEVY. I don't know the answer to that. I have seen a range of estimates, and I can't really give you a story that I am comfortable with one way or the other, either that numbers of jobs will be eliminated or that nothing really will happen to the numbers of jobs; I just don't know.

Mr. COATS. Does anybody else have an opinion on that?

Ms. SCHOEN. The thing that is clear—and, as Frank said, there are estimates all over the place—is that where States have made an effort to raise the wage and provide child subsidies people go to work. If you keep the wages so low that you can't perform your other job, which is also to take care of your children, the ability to put people to work just isn't there.

So there is basically not much evidence that the job loss would offset putting people to work, because every time we have raised the minimum wage, in fact, jobs have increased, and they have increased up and down the economy. So the only historical evidence we have would suggest that raising the floor is actually good for the economy, not the reverse.

Mr. BARTLETT. I don't think there is any question that you would reduce the number of jobs available and that some people would lose their jobs, and you would have a wide variety of other negative effects from raising the minimum wage that I think would greatly offset whatever impact you had on those few specific people who got increases in their income as a direct result of the rising minimum wage.

I think it is important to note that the vast bulk of people who work at the minimum wage are secondary workers. Most of them are kids living at home with their families. There just aren't very many heads of households working at the minimum wage, and I think it is really a mistake to even talk about whether you can support a family on a minimum wage income, because there just aren't very many people out there in that situation.

Mr. COATS. A lot of labor statistics and economists indicate that in the coming years, not so very far in the future, we are actually facing, I don't know if I want to call it a labor shortage but at least a labor squeeze, particularly in certain categories of jobs. Number one, that labor squeeze results from the fact that those jobs are demanding higher skills and higher levels of education to perform them, but that that squeeze also is going to cause a rise in the job benefit level and the job wage level.

Do you agree with that? Have you looked into that question, and do you see that coming? If so, how soon are we looking at that? Early on, the estimates were, in the late 1980's we would begin to see the effect of the aging of the Baby Boom, fewer workers entering the work force, the expanding of the jobs, and the upward push on the wages and benefits.

Mr. LEVY. Let me talk about that specifically with respect to the issue of children in poverty for a second. I have seen the same articles, I guess, that you have, and I get from those articles two different stories. One story says that there will be such a labor squeeze that finally employers will have to reach into areas that they just never touched in the 1970's. The classical story that you keep on hearing is the bus in Westchester that goes in to pick up kids in the South Bronx to get them out to McDonald's. I think that bus has been written up in more newspapers than any other bus in the history of the United States.

On the other hand, you hear stories that the nature of jobs is changing so fast that nothing will induce employers to dip into that pool of labor, because kids just don't have the skills and it is not worth their time to do it.

Again, I just don't know what the answer to that question is. My guess is that over the next couple of years certain States, like Massachusetts, where there are very low unemployment rates, provide some kind of natural experiments to see what is going on, to see how much employers are doing to get kids that they otherwise wouldn't do. But, as far as I know, that evidence is not in yet. So I really can't say.

Mr. BARTLETT. I don't know. I haven't seen any aggregate data on this, but I think casual observation suggests that there are more cases than one bus up in Westchester. All you have to do is go out to Fairfax County here, and you see "Workers Wanted" signs all over the place, and you find that many of the businesses that traditionally paid the minimum wage are having to pay substantially more than the minimum wage to attract the number of people that they need, and you see outfits like McDonalds running nationwide ads trying to encourage elderly workers, retired people, to come back into the labor force to work, because they just can't get the people, and I think that trend will continue for the reasons you cited.

Mr. COATS. Thank you.

Chairman MILLER. Congressman Wheat.

Mr. WHEAT. I would like to continue along some of the lines that Mr. Coats has started, in particular in regard to the minimum wage. I don't want to get into it too heavily, but, Mr. Bartlett and Ms. Schoen, your testimony has been directly contradictory about what the effect of an increase in the minimum wage would be.

Mr. Bartlett, in particular, a couple of the statements you have made as to who is earning minimum wage are counter to some of the evidence that I have seen.

I would just be wondering if each of you at some later time—hopefully soon—would be willing to submit, Ms. Schoen, the historical data that you referred to and, Mr. Bartlett, the evidence that you would refer to suggesting that most of the people who are earning minimum wage are not heads of households or are just kids, because that is absolutely counter to the information that I have seen so far, and I would like to see that kind of data.

[The data follows:]

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JOHN J. SWEENEY
INTERNATIONAL PRESIDENT

RICHARD W. CORDTZ
INTERNATIONAL SECRETARY-TREASURER

July 27, 1987

Congressman George Miller
Chairman, Select Committee on Children, Youth
and Families
385 House Office Building Annex 2
Washington, DC 20515

Dear Congressman Miller:

Enclosed is an edited copy of Cathy Schoen's testimony before your committee on "American Families in Tomorrow's Economy." Ms. Schoen was unavailable during the period necessary to meet your deadline. In her absnece I have reviewed her testimony and attempted to address the issues raised in your letter.

In response to your questions, I have included two enclosures. First, a recent study by Data Resources, Inc. stating that involuntary part-time work has increased by 224% since 1960, as opposed to an increase of 213% in voluntary part-time work. As noted in the enclosure, however, most of the increase in involuntary part-time work has occurred since 1970. Furthermore, the reduction in part-time work is less than would be expected given the drop in unemployment since the recession of the early 1980s.

Second, I have enclosed a copy of a recent position paper prepared by SEIU on the Minimum Wage. It thoroughly documents the answers to the questions contained in your letter.

Please feel free to contact me for additional clarification if needed. Thank you.

Sincerely,

Jean Ross
Assistant Director of Research

EXCERPTS FROM "EMPLOYMENT, UNEMPLOYMENT, AND THE LABOR FORCE" COMPLETE TEXT IS RETAINED IN COMMITTEE FILES

PART-TIME EMPLOYMENT: IS IT HIDING UNEMPLOYMENT?

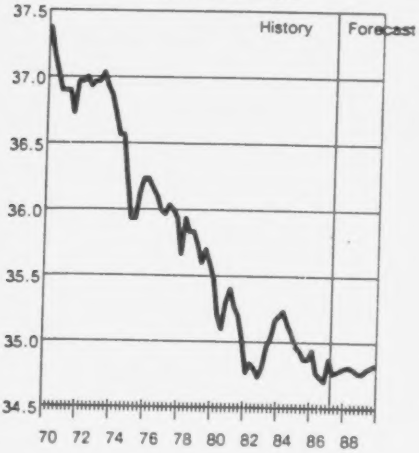
Given the increasing importance of the service sector, where the average workweek is now down to 32.7 hours, it may well be that the 40-hour workweek is gone forever as the norm (Chart 11.1). In the wholesale and retail trade industries, for instance, one-third of all employees work part-time (less than 35 hours per week), compared with only 6% in manufacturing.

Is the higher incidence of part-time employment a cause for concern? It would be if the gains in employment since the 1982 recession trough included many new part-time jobs held by workers who could not find full-time work. This would indicate that the official unemployment rate is not capturing a substantial amount of under-employment.

It is important to distinguish between workers who actually choose part-time employment and those who take part-time jobs because of adverse labor-market conditions. Voluntary part-time employees are by far the larger group, with their numbers rising steadily from 6.6 million in 1960 to 14.1 million currently as

Data Resources U.S. Review, May 1987

Chart 11.1
Weekly Hours of Nonagricultural Production Workers



new labor-force entrants--particularly women--opt for part-time jobs. The number of involuntary part-time workers has also risen over this period from 2.5 million to 5.6 million, but much of the increase occurred after 1970. Involuntary part-time employment is much more sensitive to cyclical labor-market conditions and can rise by as much as 2 million during recessions, as layoffs force full-time workers to take part-time positions. Between 1960 and 1986, both voluntary and involuntary part-time employment averaged about 3.0% growth, compared with 2.3% for establishment employment as a whole (Chart 11.2).

Since the recession trough in the fourth quarter of 1982, the unemployment rate has fallen from 10.7% to 6.6%, and the level of involuntary part-time employment has dropped by 1.2 million. To determine if this level is still high relative to the unemployment rate, we estimated the following equation that relates the change in involuntary part-time employment as a percent of total employment (R) to the change in the unemployment rate (RUC).

Chart 11.2
Part-Time Employment as a Percent of Total Employment

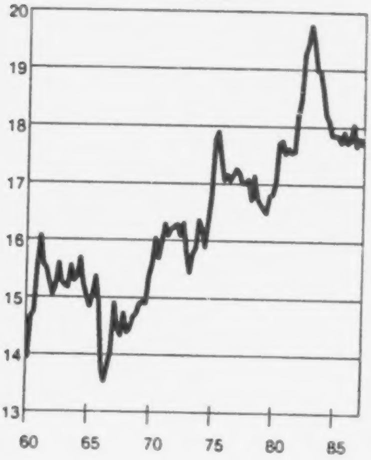
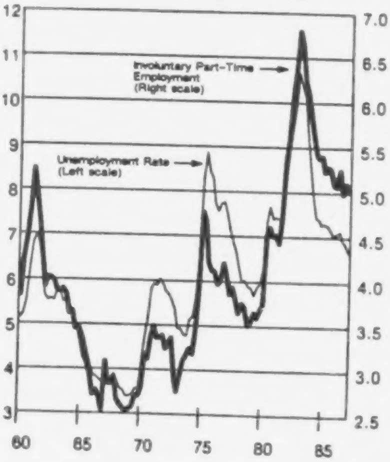


Chart 11.3
Involuntary Part-Time Employment as a Percent of Total Employment and the Unemployment Rate



$$R - R_{-1} = \underset{(12.07)}{0.505} (RUC - RUC_{-1})$$

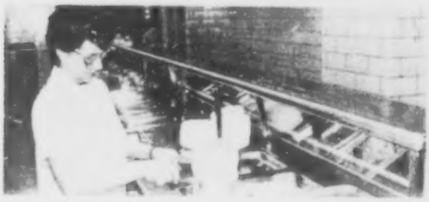
$$R^2 = 0.61$$

The estimation period extends from 1960 to end-1982; the equation was then solved dynamically from 1983 to the present. The solution indicates that the drop in involuntary part-time employment during this recovery is 260,000 less than would be expected given the decline in the overall unemployment rate. This figure represents 0.2% of the labor force. Thus, it can be concluded that the official unemployment rate slightly overstates the improvement in labor-market conditions since 1982.

Table 11.2
Unemployment and the Labor Force

	1986			1987				Years				
	2	3	4	1	2	3	4	1985	1986	1987	1988	1989
Rates of Unemployment (Percent, SA)												
Total	7.0	6.8	6.7	6.5	6.5	6.4	6.3	7.1	6.9	6.4	6.2	6.2
Civilians	7.1	6.9	6.8	6.7	6.6	6.5	6.4	7.2	7.0	6.6	6.3	6.3
Married Males	4.4	4.3	4.5	4.2	4.1	4.1	4.0	4.3	4.4	4.1	3.9	3.9
Males	7.0	6.9	6.9	6.7	6.6	6.5	6.4	7.0	6.9	6.5	6.2	6.3
Females	7.2	7.0	6.8	6.7	6.7	6.6	6.5	7.4	7.1	6.6	6.3	6.3
Whites	6.1	5.9	5.9	5.7	5.7	5.6	5.5	6.2	6.0	5.6	5.4	5.4
Nonwhites	13.5	13.0	12.6	12.6	12.5	12.2	12.1	13.7	13.1	12.4	11.8	11.9
Teenagers	19.0	18.1	17.7	17.9	17.8	17.7	17.5	18.6	18.3	17.7	17.3	17.3
Aged 20 to 24	10.9	10.7	10.5	10.5	10.4	10.2	10.1	11.1	10.7	10.3	9.8	9.9
Aged 25 and Over	5.5	5.4	5.4	5.1	5.1	5.0	4.9	5.6	5.4	5.0	4.8	4.8
Population (Millions of persons, NSA)												
Population Aged 16 and Over	185.4	185.9	186.4	187.0	187.5	188.0	188.4	183.6	185.7	187.7	189.4	191.0
Annual Rate of Change	1.1	1.1	1.1	1.2	1.1	1.0	0.9	1.1	1.1	1.1	0.9	0.8
Aged 16 to 19	14.8	14.8	14.9	14.9	14.9	14.9	14.9	14.8	14.8	14.9	14.8	14.4
Annual Rate of Change	0.4	0.4	1.0	1.8	0.7	-0.1	-0.6	-2.1	0.0	0.8	-1.0	-2.4
Aged 18 to 64	148.8	149.1	149.5	149.8	150.1	150.4	150.8	147.8	149.0	150.3	151.7	153.2
Annual Rate of Change	0.8	0.8	0.9	0.9	0.9	0.9	0.9	1.0	0.8	0.9	1.0	1.0
Civilian Labor Force (Millions of persons, SA)												
Labor Force	117.6	118.2	118.6	119.2	119.7	120.2	120.7	115.5	117.8	120.0	122.0	123.7
Annual Rate of Change	2.1	1.9	1.3	2.2	1.8	1.8	1.7	1.7	2.1	1.8	1.7	1.4
Labor Force Participation Rate (%)	64.2	64.3	64.3	64.5	64.6	64.7	64.8	63.6	64.2	64.7	65.2	65.5
Employment and Unemployment (Millions of persons, SA)												
Civilian Employment--HH Survey	109.2	110.0	110.4	111.3	111.8	112.4	113.0	107.2	109.6	112.1	114.4	115.9
Annual Rate of Change	1.8	2.7	1.6	3.1	2.0	2.2	2.1	2.0	2.3	2.3	2.0	1.4
Employment Ratio (%)	58.9	59.2	59.2	59.5	59.6	59.8	60.0	58.4	59.0	59.7	60.4	60.7
Unemployed	8.4	8.2	8.1	7.9	7.9	7.8	7.8	8.3	8.2	7.9	7.7	7.8
Total Hours (Annual rate, SA)												
Priv Nonag Establishments (Bil)	152.5	153.2	154.3	155.8	156.7	157.6	158.5	149.6	153.1	157.1	160.4	162.8
Annual Rate of Change	0.3	1.8	2.8	4.0	2.3	2.4	2.4	2.8	2.4	2.6	2.1	1.5
Avg Wkly Hrs: Production Workers	34.8	34.7	34.7	34.9	34.8	34.8	34.8	34.9	34.8	34.8	34.8	34.8
Potential and Actual GNP (Billions of 1982 dollars, annual rate, SA)												
Actual Real GNP	3661.4	3686.4	3696.1	3735.2	3756.0	3792.8	3818.8	3585.2	3674.9	3775.7	3879.9	3962.0
Annual Rate of Change	0.6	2.8	1.1	4.3	2.2	4.0	2.8	2.7	2.5	2.7	2.8	2.1
Potential Real GNP	3852.7	3874.2	3895.2	3916.5	3938.6	3960.9	3983.2	3788.1	3863.6	3949.8	4039.0	4130.2
Annual Rate of Change	2.1	2.2	2.2	2.2	2.3	2.3	2.3	1.8	2.0	2.2	2.3	2.3
GNP Gap (%)	5.0	4.8	5.1	4.6	4.6	4.2	4.1	5.4	4.9	4.4	3.9	4.1

MINIMUM WAGE: AMERICANS DESERVE



A LIVING WAGE

prepared by
Service Employees International Union
John J. Sweeney, President
Richard Cordtz, Secretary-Treasurer

[Minimum Wage: Americans Deserve A Living Wage, is retained in committee files.]

EXECUTIVE SUMMARY

MINIMUM WAGE FREEZE: A DRAG ON THE SERVICE ECONOMY

- The U.S. Economy is a "service" economy -- three out of every four workers produces services. Over the next ten years, virtually all of the new jobs will be in the service sector.
- Service industries and jobs are diverse, with a broad range of skill and complexity. Yet, their common thread is "below-average" pay and benefits. Two out of every five jobs in services is low wage.
- The eroding value of the minimum wage is one of several important factors holding down pay standards of the "service" economy. Over 88% of workers paid no more than the minimum wage work in service industries. Jobs paying no more than $3.85 per hour -- the scheduled minimum wage increase in 1988 under current proposals -- account for 12% of all workers in service industries. About 40% of them earn less than $4.65 per hour -- the standard which the minimum wage should equal today.
- In 1987, 8 out of the top 10 jobs employing the most minimum wage workers are "services" -- only two of which are in the retail trades. Taken altogether, these 8 jobs account for 74% of all minimum wage earners.
- A look at where job growth is predicted in the future indicates that this trend towards lower job standards will continue. Seven out of the ten fastest-growing jobs over the next decade are service-sector jobs that employ large numbers of minimum wage workers.
- While the Administration talks about the need to train computer programmers, accountants and engineers, it is the relatively low-paid occupations (those paying below median weekly earnings in 1986) that will account for 58% of the net growth for the next decade.
- Raising the minimum wage on a regular basis would be an important step toward upgrading the low-pay standards of the new service economy. Unless this and other steps to improve service sector productivity are taken now, U.S. living standards will continue to decline.

WHO WORKS AT THE MINIMUM WAGE

- Altogether, 6.5 million Americans work for no more than the minimum wage of $3.35 an hour in 1987. A total of 11.5 million workers -- 10.5% of the labor force -- earn $3.85 or less an hour.

- There is no single stereotype of minimum wage workers; they cover a broad spectrum of the workforce -- young and old, married and single, male and female.

  -- Adults, 20 years and older, account for 70% of minimum wage workers.
  -- Women account for 63% of minimum wage earners and minorities are 17%.
  -- More than 55% of all minimum wage earners work full-time or want full-time jobs.

- Raising the minimum wage will help millions of workers at the bottom of the economic ladder: Over 45% of minimum wage jobs are held by heads of households and married women. One in four minimum wage workers lives in poverty -- family income below $10,000 -- compared to just 8% of all workers. One in two are in households earning less than the BLS "bare-bones" budget of $19,460, compared to 25% of the entire labor force.

A NEW LEVEL NEEDED FOR THE MINIMUM WAGE

- The purchasing power of the minimum wage has declined by 27% since 1981 and now equals only 37% of the current average hourly wage of $8.95.

- The minimum wage is not a living wage. Full-time work at $3.35 an hour leaves a family of two or more people in poverty. Working full-time at the minimum wage, a person earns only 62% of the poverty threshold for a family of four ($11,200).

- The 6.5 million men and women working at the minimum wage don't earn enough after taxes to pay for the four most "basic necessities" -- food, clothing, rent and transportation. A family of three with only a minimum wage income living in New York, Massachusetts, Nebraska, and Washington, D.C. would all face monthly budget deficits ranging from $105 to $410.

- When basic health and child care costs are factored into the budget, a family of three still ends up with a monthly deficit -- even with a second full-time minimum wage earner. The monthly budget deficit covering only the basic needs for a family of three with two minimum wage earners ranges from $7 monthly in Nebraska to $318 monthly in Massachusetts.

- All these measures justify a substantial increase in the minimum wage. S. 837 and H.R. 1834 propose modest catch-up adjustments of $.50 in 1988 and $.40 each in 1989 and 1990 -- with indexation to follow.

FALSE ARGUMENTS AGAINST A HIGHER MINIMUM WAGE

- Opponents of raising the minimum wage frequently argue that the economy will go bust. The Chamber of Commerce claims that the current proposal will hike unemployment by 1.2% and cost the United States 1.8 million jobs. But the evidence suggests that any employment effects would be negligible or nonexistent. For example:

  - A recent study (Luskin, U.S. Department of Labor) found that raising the minimum wage in 1984 would have had a near-zero impact on teenage employment (due to the declining supply of teenagers available to work).

  - Wharton estimates that over a three-year period, raising the minimum wage would increase the unemployment rate by less than .1%.

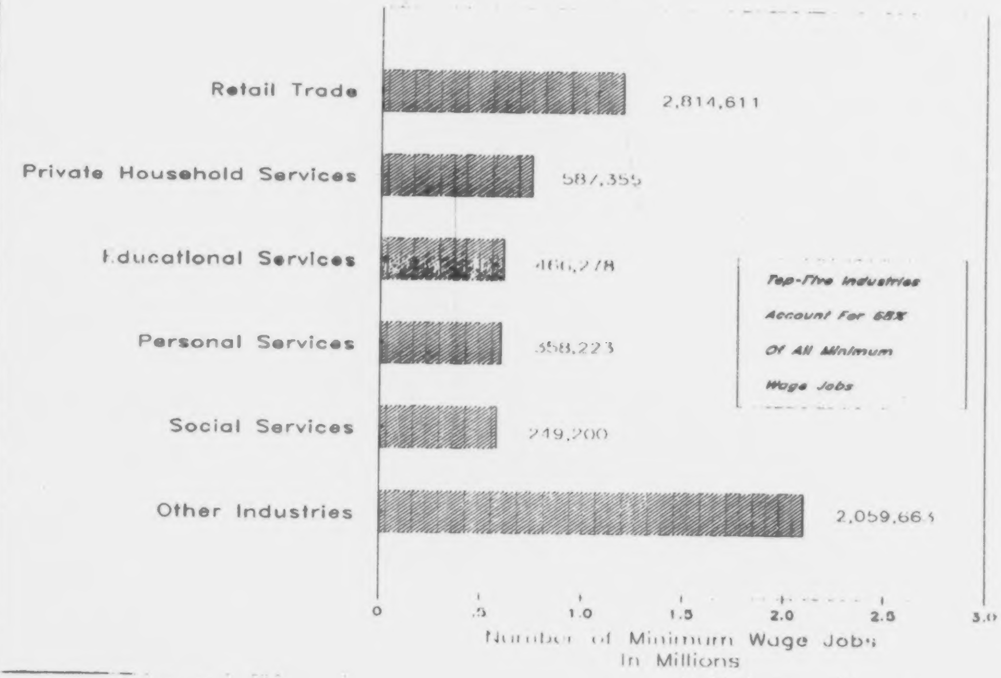
- Opponents claim that increasing the minimum wage will fuel inflation and bankrupt business. But the Wharton study estimates that inflation will be only .2% higher per year. Compared to most other economic factors (the trade deficit, interest rate policy, etc.), raising the minimum wage is an economic non-event.

- Opponents say that the minimum wage is old-fashioned and that what workers really need are new skills. Winning the War on Poverty requires many approaches, but raising the minimum wage is part of the answer. It's still the best way to bring millions of America's low-income workers into the economic mainstream.

Chart 1

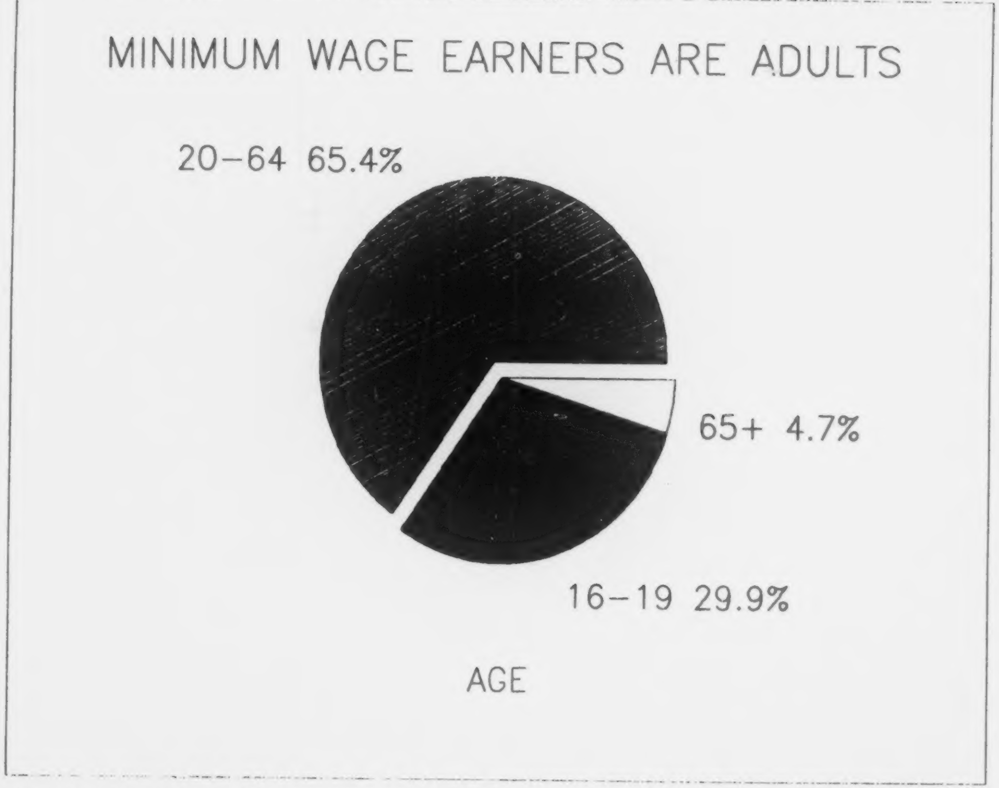
TOP-FIVE MINIMUM WAGE INDUSTRIES

Service-Producing Jobs Dominate



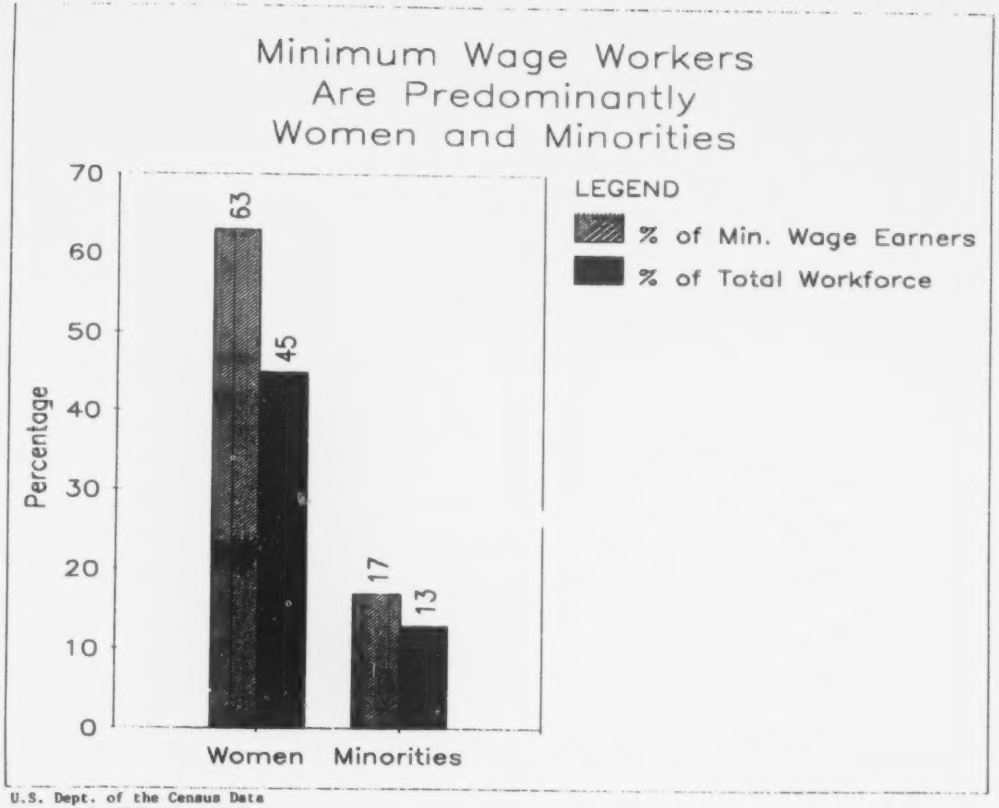
U.S. Department of the Census
Prepared by SEIU Research Department

Chart 2



U.S. Dept. of the Census Data
Prepared by SEIU Research Dept.

Chart 3



U.S. Dept. of the Census Data
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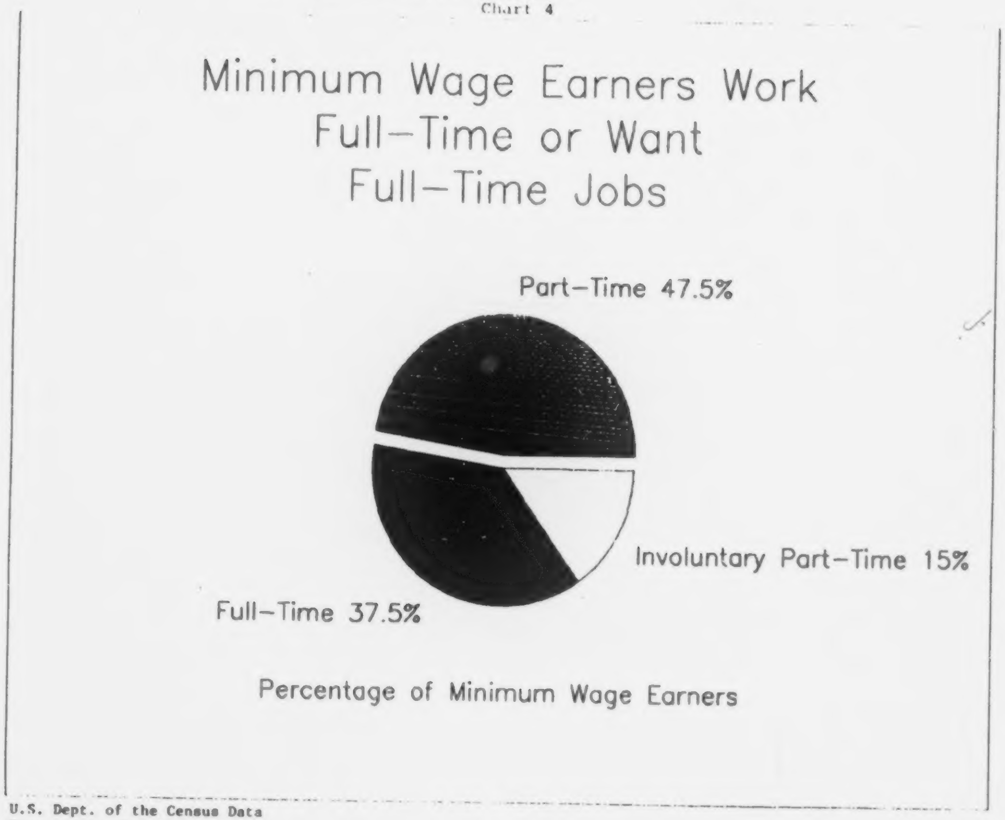
Chart 4

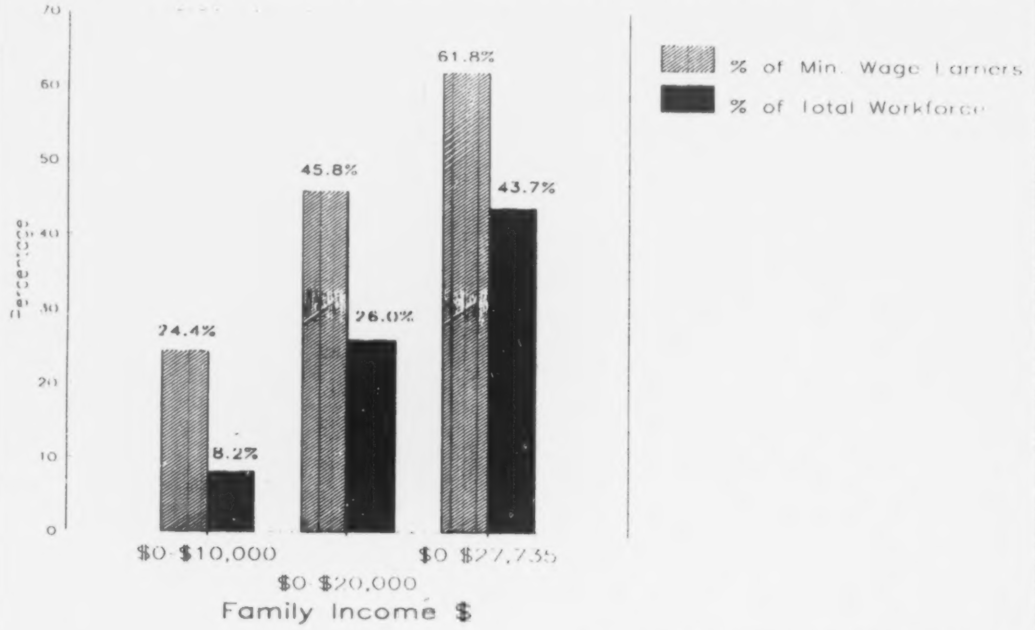


Minimum Wage Earners Work Full-Time or Want Full-Time Jobs

U.S. Dept. of the Census Data
Prepared by SEIU Research Dept.

Chart 5

MINIMUM WAGE EARNERS ARE OVER-REPRESENTED IN LOW INCOME FAMILIES

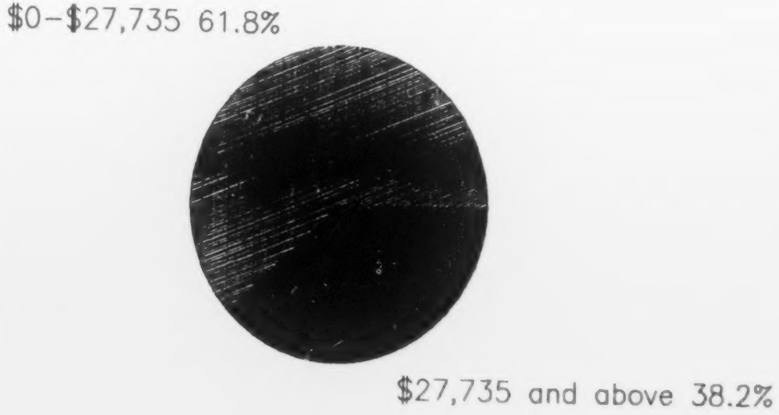


U.S. Median Family Income $27,735

U.S. Department of the Census
Prepared by SEIU Research Department

Chart 6

Majority of Minimum Wage Earners
Live in Families Below Median Family Income



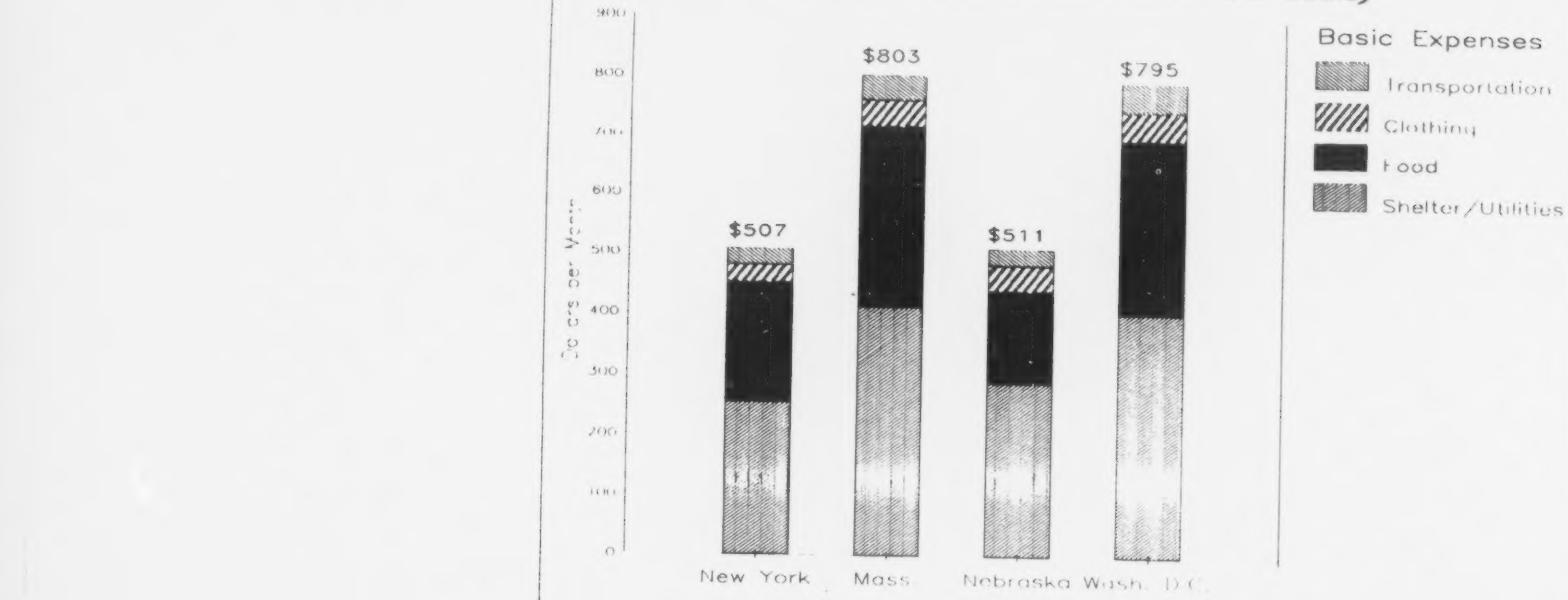
Family Income of Minimum Wage Earners

U.S. Median Family Income $27,735

U.S. Dept. of the Census Data
Prepared by SEIU Research Dept.

Chart 7

COMPONENTS OF BASIC NEEDS STANDARDS *
FOR A FAMILY OF THREE
(Excludes Health And Child Care Costs)



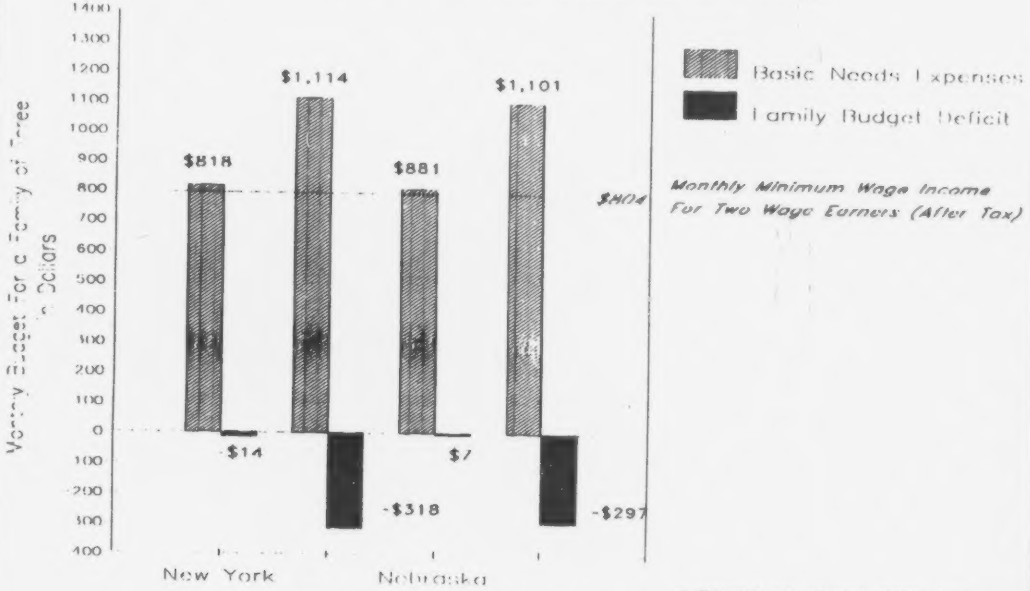
* Basic Needs Expenses Per Month

Prepared by SEIU Research Department

Chart 8

Minimum Wage Earners: Can't Afford Basic Family Needs *

(Includes Health And Child Care Costs)



* FAMILY OF THREE WITH TWO WAGE EARNERS

Prepared by SEIU Research Department

Table 1: Growth Rates By Major Occupations 1983-1986

TYPE OF OCCUPATION	TOTAL EMPLOYED 1986 (in 000's)	TOTAL EMPLOYED 1983 (in 000's)	NEW JOBS CREATED 1983-1986 (in 000's)	% OF TOTAL NEW JOBS CREATED 1983-1986	MEDIAN FULL-TIME WEEKLY EARNINGS 1986	MEDIAN HOURLY EARNINGS 1986
TOTAL EMPLOYMENT, 16 YEARS AND OVER	109,597	100,834	8,763	100.00%	$358	$9.18
MANAGERIAL & PROFESSIONAL SPECIALTY	26,554	23,592	2,962	33.80%	$505	$12.95
Executive, Administrative, Manag.	12,642	10,772	1,870	21.34%	$511	$13.10
Professional Specialty	13,911	12,820	1,091	12.45%	$500	$12.82
Registered Nurses	1,448	1,372	76	0.87%	$460	$11.79
Teachers	3,559	3,365	194	2.21%	$437	$11.21
Social and Recreation Workers	911	831	80	0.91%	$399	$9.97
TECHNICAL, SALES, ADMINISTRATIVE SUPPORT	34,354	31,265	3,089	35.25%	$320	$8.21
Technicians and Related Support	3,364	3,053	311	3.55%	$416	$10.67
Sales Occupations	13,245	11,818	1,427	16.28%	$351	$9.00
Cashiers	2,310	2,009	301	3.43%	$181	$4.64
Sales (Retail & Personal)	5,927	5,511	416	4.75%	$215	$5.51
Administrative Support	17,745	16,395	1,350	15.41%	$300	$7.60
Secretaries, Stenographers, Typists	4,940	4,861	79	0.90%	$287	$7.36
Financial Records Processing	2,473	2,457	16	0.18%	$290	$7.44
PRECISION, PRODUCTION, CRAFT, REPAIR	13,405	12,328	1,077	12.29%	$408	$10.46
Mechanics and Repairs	4,374	4,158	216	2.46%	$414	$10.62
Construction Trades	4,924	4,289	635	7.25%	$401	$10.28
Precision Production	3,936	3,685	251	2.86%	$403	$10.33
SERVICE OCCUPATIONS	14,680	13,857	823	9.39%	$209	$5.36
Food Preparation	5,127	4,860	267	3.05%	$186	$4.77
Health Service	1,823	1,739	84	0.96%	$216	$5.54
Cleaning and Building Service	2,861	2,736	125	1.43%	$238	$6.10
Personal Services	2,101	1,870	231	2.64%	$212	$5.44
OPERATORS, FABRICATORS, LABORERS	17,160	16,091	1,069	12.20%	$301	$7.72
Machine Operators	7,911	7,744	167	1.91%	$293	$7.51
Transportation, Material Moving	4,564	4,201	363	4.14%	$366	$9.38
Handlers, Helpers, Laborers	4,685	4,147	538	6.14%	$263	$6.74
FARMING, FORESTRY, FISHING	3,444	3,700	(256)	-2.92%	$217	$5.56
Farm Operators	1,337	1,450	(113)	-1.29%	$321	$8.23

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment & Earnings, Monthly Labor Review, 1983-1986

The Heritage Foundation

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July 2, 1987

Hon. George Miller, Chairman
Select Committee on Children, Youth, and Families
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Miller:

At yesterday's hearing you asked me to provide some additional material for the record on people earning the minimum wage and people working part-time. I am enclosing the following:

1. A February, 1986 article from the Bureau of Labor Statistics' Monthly Labor Review on characteristics of hourly-paid workers. This article indicates that of those earning the minimum wage or less, 60 percent were under age 25 and one-third are teenagers. Fifteen percent of those earning the minimum wage were women, a fact that was accounted for by the fact that a disproportionate number of women work part-time.

2. A June, 1986 staff working paper from the Congressional Budget Office. This article indicates that only about 7 percent of workers being paid on an hourly basis were paid the minimum wage. Four-fifth of all minimum wage workers are not poor because two-thirds of them live in families in which at least one other member has a job.

3. Two articles and a report from the BLS on characteristics of part-time workers.

I hope this material will be helpful.

Sincerely,

Bruce Bartlett

Bruce Bartlett

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[This article is based on 1984 information.]

Monthly Labor Review vol. 109, no. 2 (February 1986)

Hourly paid workers: who they are and what they earn

More than half of all wage and salary workers were paid by the hour during 1984; median earnings were $5.95 per hour, but a closer look reveals many variations among groups

EARL F. MELLOR AND STEVEN E. HAUGEN

The Bureau of Labor Statistics publishes several different data series on the hourly earnings of workers, each highlighting different worker and job-related characteristics. All but one of these series are based on surveys of payroll and other records of business establishments. Data from these series contain considerable industrial detail. In contrast, the remaining earnings series is based on a nationwide sample survey of households, and provides detailed information on hourly earnings by the demographic and social characteristics of the wage earners.[1] (See the appendix on page 26.) Moreover, the earnings obtained in the Current Population Survey (CPS) of households represent *only* hourly wages paid to the employee—stripped of any effects of tips, premium pay for overtime, bonuses, and commissions. More than half of all wage and salary workers are in this category.

Who is paid by the hour

Altogether, 92 million American workers were paid wages or salaries in 1984, and 54 million of them were paid at hourly rates. The method of remuneration received by workers is closely linked to the nature of jobs held. For example, 80 percent of all part-time workers were paid by the hour, compared with 54 percent of the full-time workers. The fact that women were more likely than men to work part time is reflected in the larger proportion of women who were paid by the hour—62 percent versus 56 percent (table 1).

The same explanation applies to younger versus older workers. The proportion paid hourly rates was highest for teenagers—89 percent—and lowest for those in the central prime age groups, comprising the 35 to 49 population. Even for those aged 70 and over, the proportion was far below that for teenagers and young adults. The high proportion of young workers paid by the hour reflects their tendency to work both part time and part year, and in occupations less likely to be salaried even when they are employed all year in full-time jobs.

Earl F. Mellor and Steven E. Haugen are economists in the Division of Employment and Unemployment Analysis, Office of Employment and Unemployment Statistics, Bureau of Labor Statistics.

Table 1. Employed wage and salary workers paid hourly rates by selected characteristics, 1984 annual averages

[Numbers in thousands]

Characteristic	All wage and salary workers			Workers paid hourly rates					
				Number			As a percent of all workers		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Race and Hispanic origin									
Total, 16 years and over	92,194	50,022	42,172	54,143	28,140	26,003	58.7	56.3	61.7
White	80,071	43,932	36,139	46,098	24,084	22,014	57.6	54.8	60.9
Black	9,699	4,819	4,880	6,623	3,346	3,277	68.3	69.4	67.2
Hispanic origin	5,271	3,067	2,204	3,643	2,165	1,479	69.1	70.6	67.1
Age									
16 to 19 years	6,243	3,171	3,072	5,552	2,787	2,765	88.9	87.9	90.0
20 to 24 years	13,661	7,189	6,472	10,092	5,442	4,650	73.9	75.7	71.8
25 to 29 years	14,559	8,021	6,539	8,667	4,756	3,911	59.5	59.3	59.8
30 to 34 years	12,917	7,164	5,754	6,898	3,744	3,154	53.4	52.3	54.8
35 to 39 years	11,222	6,107	5,115	5,658	2,838	2,820	50.4	46.5	55.1
40 to 44 years	8,917	4,811	4,107	4,535	2,214	2,321	50.9	46.0	56.5
45 to 49 years	7,097	3,887	3,211	3,586	1,766	1,820	50.5	45.4	56.7
50 to 54 years	6,391	3,561	2,832	3,312	1,687	1,615	51.7	47.4	57.0
55 to 59 years	5,694	3,176	2,517	2,954	1,506	1,448	51.9	47.4	57.5
60 to 64 years	3,599	1,947	1,652	1,894	935	959	52.6	48.0	58.1
65 to 69 years	1,148	591	557	606	267	340	52.8	45.2	61.0
70 years and over	743	398	345	398	198	200	53.6	49.7	58.0
Hours usually worked									
Part-time workers	17,282	5,368	11,914	13,880	4,243	9,637	80.3	79.0	80.9
Full-time workers	74,912	44,654	30,258	40,262	23,896	16,366	53.7	53.5	54.1
35 to 39 hours	6,961	2,132	4,829	3,784	1,185	2,599	54.4	55.6	53.8
40 hours	52,307	30,426	21,882	31,238	18,571	12,667	59.7	61.0	57.9
41 to 44 hours	1,517	992	525	829	550	279	54.6	55.4	53.1
45 to 48 hours	5,327	3,972	1,355	2,195	1,721	475	41.2	43.3	35.1
49 to 59 hours	6,076	4,838	1,238	1,678	1,409	270	27.6	29.1	21.8
60 hours or more	2,723	2,294	429	537	461	76	19.7	20.1	17.7
Occupation									
Managerial and professional specialty	20,817	11,412	9,404	4,641	1,636	3,005	22.3	14.3	32.0
Executive, administrative, and managerial	9,314	5,879	3,434	1,670	755	914	17.9	12.8	26.6
Professional specialty	11,504	5,533	5,970	2,972	881	2,091	25.8	15.9	35.0
Technical, sales, and administrative support	29,135	9,689	19,446	16,373	4,157	12,217	56.2	42.9	62.8
Technicians and related support	3,090	1,578	1,510	1,763	765	998	57.1	48.5	66.1
Sales occupations	9,916	4,806	5,111	5,220	1,439	3,781	52.6	29.9	74.0
Administrative support, including clerical	16,130	3,305	12,825	9,390	1,952	7,438	58.2	59.1	58.0
Service occupations	13,066	5,249	7,817	9,899	3,804	6,095	75.8	72.5	78.0
Private household	1,008	39	970	511	25	486	50.7	(1)	50.1
Protective service	1,659	1,438	220	892	756	137	53.8	52.6	62.3
Service, except private household and protective	10,398	3,772	6,626	8,496	3,023	5,473	81.7	80.1	82.6
Precision production, craft, and repair	11,188	10,224	964	8,521	7,742	778	76.2	75.7	80.7
Operators, fabricators, and laborers	16,213	11,908	4,305	13,667	9,921	3,746	84.3	83.3	87.0
Machine operators, assemblers, and inspectors	7,798	4,563	3,235	6,942	4,109	2,833	89.0	90.1	87.6
Transportation and material moving occupations	4,122	3,771	351	2,854	2,597	257	69.2	68.9	73.2
Handlers, equipment cleaners, helpers, and laborers	4,294	3,574	720	3,872	3,215	657	90.2	90.0	91.3
Farming, forestry, and fishing	1,776	1,540	236	1,041	879	162	58.6	57.1	68.6

[1] Data not shown where base is less than 50,000.

NOTE: Detail for the above race and Hispanic origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

Among white workers, women were more likely than men to be paid hourly rates, while the reverse was true—albeit to a lesser extent—for blacks and Hispanics. The following tabulation shows, however, that the situation is quite different when numbers are reported for full- and part-time workers.

	Percent paid hourly rates			
	Full time		*Part time*	
	Men	*Women*	*Men*	*Women*
White	52.0	52.5	79.1	81.2
Black	[illegible]	64.3	77.5	77.3
Hispanic origin	[illegible]	61.6	80.3	84.7

For full-time employees, the more hours people work, the more likely they are to be in a salaried rather than in an hourly paid position. About three-fifths of the men who usually worked exactly 40 hours a week were paid hourly, compared with just over two-fifths for those working 45 to 48 hours and one-fifth for those working 60 hours or more. This pattern was similar for women working full time.

The occupational distribution of hourly paid workers sheds further light on this relationship. As shown in table 1, fewer than one-fifth of workers in executive, administrative, and managerial occupations and about one-fourth of those in professional specialty occupations were paid hourly rates. A substantial number of employees in these occupations put in long workweeks, with one-quarter of the two groups (combined) working 49 hours or more a week.[2] In contrast, about nine-tenths of workers employed as machine operators, assemblers, and inspectors, and as handlers, equipment cleaners, helpers, and laborers were paid hourly wages, but fewer than one-tenth put in 49 or more hours a week.

Table 2. Median hourly earnings of workers paid hourly rates by selected characteristics, 1984 annual averages

Characteristic	Median hourly earnings		
	Total	Men	Women
Race and Hispanic origin			
Total, 16 years and over	$5.95	$7.27	$5.08
White	6.02	7.39	5.09
Black	5.43	6.28	4.99
Hispanic origin	5.39	6.17	4.73
Age			
16 to 19 years	3.64	3.80	3.50
20 to 24 years	4.94	5.31	4.43
25 to 29 years	6.52	7.50	5.52
30 to 34 years	7.23	8.63	5.81
35 to 39 years	7.37	9.48	5.81
40 to 44 years	7.17	9.75	5.51
45 to 49 years	7.23	9.96	5.46
50 to 54 years	7.20	9.65	5.63
55 to 59 years	6.85	9.15	5.40
60 to 64 years	6.45	8.68	5.30
65 to 69 years	4.95	5.23	4.71
70 years and over	4.38	4.82	4.21
Hours usually worked			
Part-time workers	4.04	3.92	4.10
Full-time workers	6.80	8.03	5.59
35 to 39 hours	5.20	6.04	5.04
40 hours	6.95	8.12	5.74
41 to 44 hours	7.35	8.32	5.94
45 to 48 hours	7.40	8.05	5.91
49 to 59 hours	7.45	7.84	5.91
60 hours or more	7.14	7.38	4.96
Occupation			
Managerial and professional specialty	8.62	9.64	8.25
Executive, administrative, and managerial	7.25	8.48	6.59
Professional specialty	9.42	10.34	9.16
Technical, sales, and administrative support	5.45	6.85	5.26
Technicians and related support	7.79	9.29	7.15
Sales occupations	4.18	4.99	4.01
Administrative support, including clerical	5.95	7.62	5.71
Service occupations	4.08	4.50	3.88
Private household	3.25	(1)	3.23
Protective service	6.20	6.52	4.98
Service, except private household and protective	4.01	4.25	3.91
Precision production, craft, and repair	8.84	9.23	5.75
Operators, fabricators, and laborers	6.38	7.20	5.15
Machine operators, assemblers, and inspectors	6.59	8.04	5.18
Transportation and material moving occupations	7.51	7.77	6.01
Handlers, equipment cleaners, helpers, and laborers	5.28	5.39	4.74
Farming, forestry, and fishing	4.35	4.40	4.07
Years of school completed			
Total, 25 years and over	6.96	8.67	5.51
Less than 4 years of high school	5.79	7.22	4.55
Elementary, 8 years or less	5.43	6.46	4.34
High school, 1 to 3 years	6.04	7.91	4.71
High school, 4 years or more	7.30	9.28	5.91
High school, 4 years	6.97	9.17	5.41
College, 1 to 3 years	7.80	9.52	6.47
College, 4 years or more	8.37	9.44	7.88
College, 4 years	8.18	9.34	7.38
College, 5 years or more	9.14	9.90	8.48

[1] Data not shown where base is less than 50,000.

NOTE: Data refer to persons 16 years and over, except years of school completed, which refers to the population 25 years and over.

The data illustrate the inverse relationship between the number of hours usually worked and the likelihood of being paid at an hourly rate. It is beyond the scope of this article, however, to fully explain the nature of this relationship, because information is not collected in the CPS on several of the factors which may be involved. These include data on the overtime provisions of the Fair Labor Standards Act, the provisions of collective bargaining agreements, the extent of nonpecuniary compensation derived from a job, and productivity.

Median hourly earnings

Median hourly earnings for people who were *actually paid* hourly rates in 1984 were $5.95—$7.27 for men and $5.08 for women. (See table 2.) It is important to understand the significance of what these data represent: Hourly earnings data are commonly calculated for *all* workers (wage and salary) based on information on their weekly or annual earnings. These figures will be typically higher than would be the case for those whose pay rate is hourly. For example, the median weekly earnings of all workers putting in *exactly* 40 hours a week—a majority of all workers—was $312 in 1984; when divided by 40, this turns out to be $7.80 an hour. The median hourly wage among workers actually paid by the hour and reported as usually working 40 hours a week was $6.95. This difference is to be expected, because the weekly earnings data include components of earnings beyond straight-time wages and many higher-paying jobs are salaried.

The overall female-to-male earnings ratio for full-time workers paid hourly rates—70 percent—is 5 percentage points higher than that associated with the medians in the weekly earnings series for all full-time workers (65 percent). This finding may be explained by the more homogeneous universe for the hourly earnings data mentioned above; that is, male-dominated higher-paying occupations are more likely to be salaried.

Between 1979 and 1984, the female-to-male earnings ratio for hourly paid workers rose considerably for whites, blacks, and Hispanics, whereas the black-to-white and the Hispanic-to-white earnings ratios were virtually unchanged. (See table 3.) Regardless of race or ethnicity, the hourly earnings of men rose by about 25 percent over the period and those of women about 40 percent; the Consumer Price Index for All Urban Consumers rose 43 percent.

Among age groups, median hourly earnings ranged from $3.64 for teenagers to highs in the $7.17–$7.37 range for age groups within the 30- to 54-year bracket in 1984. Men's wages peaked at about $10 an hour for those between 40 and 54 years of age, while the peak for women—$5.81—was not only much less, but also occurred at a younger age—among those in their thirties. The female-to-male earnings ratio, at about 90 percent for teenagers, declined with age to the 45-to-49 group, and rose thereafter. The higher ratios at both ends of the age spectrum may stem from the fact that higher proportions of wage earners in these age groups are paid at or near the minimum wage.

Hourly pay is wide-ranging among occupational and industry groups. Median hourly pay ranged from $4.08 for all service jobs to $9.42 among the professional specialty jobs. In the latter group, the median for men was a little more than a dollar higher per hour than that for women, a gap much closer than the overall difference. Among the major industrial groups, median hourly wages of both men and women were highest in mining, construction, durable goods manufacturing, and the transportation and public utilities group. Wages were lowest in retail trade, private households, personal services, entertainment and recreation, social services, and agriculture.

Earnings distribution

Clearly, median earnings do not tell the whole story. The median for two different groups could be similar; yet the distribution of earnings of one group may be tightly clustered around the median, while that for another group may be dispersed. Therefore, it is useful to look at distributions as well. Table 4 shows the percent distribution of hourly wages for major demographic groups. Regardless of the median, each demographic group has some people with earnings of less than $3 an hour and others with as much as $15 or more. (It should be noted that for some population groups, the extremes of the distribution may contain only a small number of sample observations.) The following discussion focuses briefly on the likelihood of wage earners receiving $12 an hour or more, the figure that is roughly twice the overall median of $5.95, and on those earning at or below the prevailing minimum wage of $3.35, which is a little more than half the median. Each of these high-paying and low-paying categories accounts for roughly one-tenth of all hourly paid workers.

Receiving $12 or more per hour. The likelihood of earning at least $12 an hour in 1984 was over 5 times as great for men (about 17 percent) as for women (3 percent). The proportion for white men was about half again as high as that for black men; among women, both whites and blacks were about equally as likely to earn this amount (each about 3 percent). Fewer than 2 percent of the workers under age 25 were in this higher paying category. Among workers 25 and over, the proportion rose from 6 percent for those with only an elementary school education to 23 percent for those completing 4 or more years of college. At each level of schooling completed, men were more likely than women to earn $12 an hour or more. However, the disparity narrowed at successively higher educational levels, as men not completing high school were more than 10 times as likely as women to earn this amount. Among those with 4 years of high school or more, men were 5 times as likely as women to earn $12 per hour or more (26 versus 5 percent). The ratio was 2 to 1 among college graduates (31 versus 16 percent).

Table 3. Median hourly earnings of workers paid hourly rates by sex, race, and Hispanic origin, 1979–84 annual averages

Characteristic	1979	1980	1981	1982	1983	1984
Median hourly earnings						
Total	$4.48	$4.91	$5.27	$5.46	$5.66	$5.95
Men	5.73	6.26	6.72	6.90	7.08	7.27
Women	3.66	4.01	4.35	4.65	4.89	5.08
White	4.55	4.97	5.30	5.51	5.74	6.02
Men	5.89	6.42	6.84	7.14	7.21	7.39
Women	3.66	4.02	4.36	4.66	4.89	5.09
Black	4.20	4.49	5.01	5.17	5.27	5.43
Men	5.03	5.30	5.93	6.11	6.09	6.26
Women	3.60	3.94	4.27	4.52	4.79	4.99
Hispanic origin	4.16	4.48	4.90	5.13	5.23	5.39
Men	4.88	5.14	5.45	5.80	5.92	6.17
Women	3.45	3.84	4.15	4.41	4.46	4.73
Earnings ratios (percent)						
Female-to-male	63.9	63.8	64.7	66.5	69.3	69.9
White	62.1	62.6	63.7	65.3	67.8	68.9
Black	71.6	74.3	72.0	74.0	78.7	79.5
Hispanic origin	70.7	74.7	76.1	76.0	75.3	76.7
Black-to-white	92.3	90.3	94.5	93.8	91.8	90.2
Men	85.4	82.6	86.7	85.6	84.5	85.0
Women	98.4	98.0	97.9	97.0	98.0	98.0
Hispanic origin-to-white	91.4	90.1	92.5	93.1	91.1	89.5
Men	82.9	80.1	79.7	81.2	82.1	83.5
Women	94.3	95.5	95.2	94.6	91.2	92.9

About 13 percent of full-time wage earners made at least $12—19 percent of the men and 4 percent of the women—but fewer than 3 percent of part-time workers earned this amount. Among workers putting in more than 40 hours a week, the proportion was 15 percent—18 percent for men and 6 percent for women.

Among the major occupational groups, 25 percent of both professional specialty workers and those in the precision production, craft, and repair group earned $12 an hour or more in 1984. At the lower extreme, 2 percent or fewer of those in sales; service (except protective service); and farming, forestry, and fishery jobs earned this much.

Minimum and subminimum wage workers. The prevailing minimum wage, which has been $3.35 per hour since January 1981, was established by the 1977 revisions to the Fair Labor Standards Act (FLSA) of 1938. About 4.1 million workers were reported as earning exactly $3.35 an hour in 1984, and 1.8 million were reported as earning less than this amount. Together, these workers constituted about 11 percent of all hourly paid workers.

It is important to note at the outset that the presence of a sizable group of hourly paid workers receiving less than the minimum wage does not necessarily indicate widespread violations of the FLSA, as there are a number of exemptions to its minimum wage provisions. These exemptions are wide-ranging and include employees in outside sales work, low volume retail trade and service firms, and seasonal amusement establishments.[3]

For the most part, those earning $3.35 and hour or less tend to be young. About 60 percent of those with these low earnings were under age 25—one-third were teenagers.

Among teenagers alone, nearly 40 percent earned $3.35 or less. Persons 65 and over—while representing only 3 percent of the total number of minimum wage earners—also had a relatively high probability of earning at or below $3.35, as nearly 1 out of 5 hourly paid persons in this age group earned this amount. (See table 5.)

Nearly 15 percent of all women who were paid hourly rates earned the prevailing minimum wage or below, which was double the proportion for men. These percentages, however, differed greatly according to whether the employee usually worked full or part time, as shown in the following tabulation:

	Percent at or below $3.35		
	Both sexes	*Men*	*Women*
Total	11.0	7.5	14.8
Part-time workers	28.0	30.2	27.0
Full-time workers	5.2	3.5	7.6
35 to 39 hours	12.1	10.5	12.8
40 hours	4.6	3.3	6.5
41 hours or more	3.7	2.4	8.5

The number of part-time workers earning $3.35 or less, at 3.9 million, was nearly twice the number working full time. Given the fact that women made up a disproportionate share of part-time workers paid hourly rates (69 percent), those working part time accounted for almost 45 percent of all low-wage workers in 1984; men working part time accounted for about 21 percent.

An examination of minimum wage workers by race and ethnicity shows that only a slightly higher proportion of blacks than whites and Hispanics earned $3.35 or less. Nearly 14 percent of the black population were in this earnings group, compared with 11 percent of both Hispanics and whites.

Given the direct correlation of educational attainment and earnings, the likelihood that a person had hourly earnings at or below $3.35 per hour diminished with increased schooling. Among hourly paid workers aged 25 years and over with less than 4 years of high school, 10 percent were low wage earners, compared with 6 percent who finished 4 years of high school, and less than 4 percent of those with 4 years or more of college.

Of the four major regions in the United States, the largest proportion of those at or below the minimum wage lived in the South (40 percent). Overall, 13 percent of all hourly paid

Table 4. Percent distribution of hourly earnings of workers paid hourly rates by selected characteristics, 1984 annual averages

Characteristic	Number of workers (in thousands)	Percent distribution											Median hourly earnings
		Total	Under $3.00	$3.00 to $3.99	$4.00 to $4.99	$5.00 to $5.99	$6.00 to $6.99	$7.00 to $7.99	$8.00 to $9.99	$10.00 to $11.99	$12.00 to $14.99	$15.00 or more	
Sex and age													
Total, 16 years and over	54,143	100.0	2.2	18.9	15.3	14.1	10.2	8.2	11.7	9.4	7.0	3.2	$5.95
16 to 24 years	15,644	100.0	4.4	37.2	21.6	14.9	8.1	5.1	4.9	2.3	1.1	.5	4.30
25 years and over	38,499	100.0	1.3	11.4	12.7	13.7	11.1	9.4	14.4	12.2	9.4	4.3	6.96
Men, 16 years and over	28,140	100.0	.8	13.5	11.3	11.8	9.5	8.7	14.4	13.2	11.3	5.3	7.27
16 to 24 years	8,228	100.0	1.8	32.1	21.0	16.3	9.5	6.9	6.6	3.3	1.7	.7	4.66
25 years and over	19,911	100.0	.4	5.8	7.3	10.0	9.5	9.5	17.7	17.3	15.3	7.2	8.67
Women, 16 years and over	26,003	100.0	3.7	24.7	19.6	16.5	10.9	7.5	8.7	5.2	2.4	.9	5.08
16 to 24 years	7,416	100.0	7.2	42.8	22.3	13.3	6.4	3.2	3.0	1.3	.3	.2	3.99
25 years and over	18,587	100.0	2.3	17.4	18.5	17.7	12.7	9.2	10.9	6.8	3.2	1.2	5.51
Race, Hispanic origin, and sex													
White	46,098	100.0	2.4	18.2	15.1	13.9	10.2	8.3	11.8	9.6	7.3	3.3	6.02
Men	24,084	100.0	.8	12.8	11.0	11.5	9.5	8.9	14.6	13.6	11.8	5.3	7.39
Women	22,014	100.0	4.0	24.1	19.6	16.5	10.9	7.6	8.8	5.3	2.3	.8	5.09
Black	6,623	100.0	1.2	23.5	16.2	15.2	10.1	7.6	11.0	8.2	5.2	1.9	5.43
Men	3,346	100.0	.7	18.4	13.0	14.2	9.5	8.3	13.9	11.2	8.0	2.7	6.28
Women	3,277	100.0	1.7	28.8	19.5	16.3	10.7	6.8	8.0	5.0	2.3	.9	4.99
Hispanic origin	3,643	100.0	1.3	21.6	18.5	15.6	11.0	8.0	9.7	6.3	5.7	2.4	5.39
Men	2,165	100.0	.6	16.2	16.1	14.5	11.0	8.9	12.1	8.4	8.6	3.6	6.17
Women	1,479	100.0	2.3	29.7	21.9	17.3	10.9	6.6	6.1	3.2	1.6	.5	4.73
Full- or part-time status and sex													
Full-time workers	40,262	100.0	.9	10.6	13.8	14.7	11.6	9.7	14.3	11.6	8.9	3.9	6.80
Men	23,896	100.0	.3	7.2	10.0	11.9	10.3	9.8	16.4	15.1	13.0	5.9	8.03
Women	16,366	100.0	1.8	15.6	19.4	18.6	13.4	9.6	11.3	6.4	2.9	.9	5.59
Part-time workers	13,880	100.0	6.0	42.8	19.5	12.3	6.2	3.6	3.9	3.0	1.6	1.1	4.04
Men	4,243	100.0	3.6	48.9	18.6	11.3	5.2	2.9	3.4	2.5	1.9	1.7	3.92
Women	9,637	100.0	7.0	40.1	19.9	12.8	6.6	3.9	4.1	3.2	1.5	.9	4.10

NOTE: Detail for the above race and Hispanic origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

Table 5. Workers paid hourly rates with earnings at or below the prevailing minimum wage by selected characteristics, 1984 annual averages

Characteristic	Number of workers (in thousands)				Percent distribution				Percent of all workers paid hourly rates		
	Total paid hourly rates	At or below $3.35			Total paid hourly rates	At or below $3.35			At or below $3.35		
		Total	At $3.35	Below $3.35		Total	At $3.35	Below $3.35	Total	At $3.35	Below $3.35
Sex and age											
Total, 16 years and over	54,143	5,963	4,125	1,838	100.0	100.0	100.0	100.0	11.0	7.6	3.4
16 to 24 years	15,644	3,582	2,539	1,043	28.9	60.1	61.6	56.7	22.9	16.2	6.7
25 years and over	38,499	2,381	1,586	795	71.1	39.9	38.4	43.3	6.2	4.1	2.1
Men, 16 years and over	28,140	2,116	1,626	490	52.0	35.5	39.4	26.7	7.5	5.8	1.7
16 to 24 years	8,228	1,492	1,166	326	15.2	25.0	28.3	17.7	18.1	14.2	4.0
25 years and over	19,911	623	460	163	36.8	10.4	11.2	8.9	3.1	2.3	.8
Women, 16 years and over	26,003	3,847	2,499	1,348	48.0	64.5	60.6	73.3	14.8	9.6	5.2
16 to 24 years	7,416	2,089	1,373	716	13.7	35.0	33.3	39.0	28.2	18.5	9.7
25 years and over	18,587	1,758	1,126	632	34.3	29.5	27.3	34.4	9.5	6.1	3.4
Race, Hispanic origin, and sex											
White	46,098	4,923	3,293	1,630	85.1	82.6	79.8	88.7	10.7	7.1	3.5
Men	24,084	1,684	1,273	411	44.5	28.2	30.9	22.4	7.0	5.3	1.7
Women	22,014	3,239	2,020	1,219	40.7	54.3	49.0	66.3	14.7	9.2	5.5
Black	6,623	896	737	159	12.2	15.0	17.9	8.7	13.5	11.1	2.4
Men	3,346	375	315	60	6.2	6.3	7.6	3.3	11.2	9.4	1.8
Women	3,277	521	422	99	6.1	8.7	10.2	5.4	15.9	12.9	3.0
Hispanic origin	3,643	415	314	101	6.7	7.0	7.6	5.5	11.4	8.6	2.8
Men	2,165	179	143	36	4.0	3.0	3.5	2.0	8.3	6.6	1.7
Women	1,479	236	171	65	2.7	4.0	4.1	3.5	16.0	11.6	4.4
Full- or part-time status and sex											
Full-time workers	40,262	2,079	1,497	582	74.4	34.9	36.3	31.7	5.2	3.7	1.4
Men	23,896	835	657	178	44.1	14.0	15.9	9.7	3.5	2.7	.7
Women	16,366	1,244	840	404	30.2	20.9	20.4	22.0	7.6	5.1	2.5
Part-time workers	13,880	3,883	2,627	1,256	25.6	65.1	63.7	68.3	28.0	18.9	9.0
Men	4,243	1,280	969	311	7.8	21.5	23.5	16.9	30.2	22.8	7.3
Women	9,637	2,602	1,658	944	17.8	43.6	40.2	51.4	27.0	17.2	9.8

NOTE: Detail for the above race and Hispanic origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

workers in the South earned the minimum or less, compared with 12 percent in the North Central region, 9 percent in the Northeast, and 8 percent in the West.

Nearly half of all minimum wage workers held service-type jobs in 1984. Service occupations with the highest concentrations of low-paying jobs included private household work, food services, and cleaning and building services. It is notable that persons employed as food service workers accounted for 31 percent of all workers at or below the minimum wage; of that number, roughly half worked at the minimum of $3.35 and half worked below this level. Another area in which there was a large proportion of persons working at or below $3.35 was in sales occupations, particularly in retail sales, in which nearly 1 out of every 4 employees earned the minimum or less. It should be remembered, however, that for many working in sales and food service occupations, tips and commissions supplement (to varying degrees) the hourly wages received.

THIS ARTICLE has focused on earnings as a pure wage paid to the employee—stripped of any effects of tips, premium pay for overtime, bonuses, and commissions. As the findings have suggested, the wealth of information available from the Current Population Survey helps provide a foundation for further studies which can shed more light on the conditions of workers paid hourly rates. ☐

——— *FOOTNOTES* ———

[1] See BLS *Measures of Compensation*, Bulletin 2239 (Bureau of Labor Statistics, 1986), for a complete description of all BLS earnings series. Among these are the Current Employment Statistics Survey, Area Wage Surveys, and Industry Wage Surveys.

[2] Data on workweeks by occupation refer to hours actually worked during each month's survey reference week rather than to the number of hours usually worked. In the case of workers with two or more jobs, the data are tabulated according to the occupation at which the employee works the most hours.

[3] See *Report of the Minimum Wage Study Commission*, Volume 1, p. 107, for a more complete list of full and partial exemptions.

APPENDIX: Hourly earnings data from the CPS

The Current Population Survey (CPS) is a monthly sample survey conducted by the U.S. Bureau of the Census for the Bureau of Labor Statistics, totaling about 59,500 households, in 50 States and the District of Columbia. Data on hourly earnings are collected from one-quarter of each month's CPS sample through questions 25B and 25C, which read:

> 25B. Is . . . paid by the hour on this job?
>
> 25C. How much does . . . earn per hour?

Although data are collected monthly, the numbers are aggregated into quarterly and annual averages to increase their statistical reliability. On a quarterly basis, the data are tabulated by sex, race, Hispanic origin, age, marital status, major occupation and industry groups, and usual full- or part-time status. Annual average data are also tabulated by region of residence, number of hours usually worked, years of school completed, and more occupational and industrial detail. While both the quarterly and annual average tabulations provide distributional data (for example, the number of workers earning between $5 and $5.99 per hour), the latter show more wage categories, as well as data for minimum wage workers.

Between 1973 and 1978, hourly earnings data were collected only once a year as part of a supplement to each May's CPS. Comparability between these and more recent data is affected by changes in questionnaire design, the coverage of the wage and salary worker universe, and the handling of survey nonresponses. As a result, whereas estimates of the proportion of all workers paid hourly rates between 1973 and 1978 ranged between 49 and 51 percent, changes introduced in 1979 caused the proportion to jump to 59 percent, where it has remained. In 1983, there were changes to the entire occupational classification system which preclude occupational comparisons with previous years. In addition, a change in the method of estimating medians introduced the same year affects the comparability of any medians under $3.00 or over $5.99 per hour.

As is the case with estimates from any sample survey, the results can vary by chance because a sample, rather than the entire population, is surveyed. A measure of this variation is called the standard error. If samples are repeatedly drawn and estimates are computed from each sample, in approximately 68 out of 100 samples the actual population value will differ from the sample estimate by less than one standard error. In approximately 90 out of 100 samples, the population value will differ from the sample estimate by less than 1.6 times the standard error. All statements of comparison appearing in this article are significant at the 90-percent level or higher. Users are cautioned against drawing conclusions from small differences among numbers for small population groups because of the relatively large sampling errors associated with estimates based on small sample sizes. In addition, results are subject to errors of response and nonreporting—errors possible even in a complete census. These can result from differences in the interpretation of questions, the inability or unwillingness of respondents to provide correct answers, the rounding of figures, errors of processing, and errors made in estimating values for missing data. For more information regarding the collection, processing, merits, and limitations of CPS data on earnings, see Earl F. Mellor, *Technical Description of the Quarterly Data on Weekly Earnings from the Current Population Survey*, Bulletin 2113 (Bureau of Labor Statistics, 1982).

[The Minimum Wage: Its Relationship to Incomes and Poverty, is retained in committee files, in its entirety.]

THE MINIMUM WAGE:
ITS RELATIONSHIP TO INCOMES AND POVERTY

Staff Working Paper
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The Congress of the United States
Congressional Budget Office

This analysis was performed by Ralph Smith and Bruce Vavrichek of the Human Resources and Community Development Division, under the supervision of Nancy Gordon and Martin Levine. Questions may be addressed to Ralph Smith (226-2659) or Bruce Vavrichek (226-2676).

SUMMARY

After being increased numerous times during its nearly half century of existence, the federal minimum wage of $3.35 per hour has not been raised since January 1981. In the five years since then, prices have increased by about 26 percent, thereby reducing the purchasing power of the minimum wage. The minimum wage also has fallen relative to poverty thresholds, because these thresholds are adjusted for changes in prices. A person who worked year-round full-time in 1985 at the minimum wage rate of $3.35 per hour--and who had no other source of income--would have had a total income slightly less than the poverty line for a nonelderly two-person family; in 1981, this level of earnings would have been just below the poverty threshold for a family of three.

The relationship between the minimum wage and poverty is more complicated, though, because only a minority of minimum wage workers are employed year-round on full-time schedules. Moreover, whether a minimum wage worker is poor also depends on the amount of other income received by the worker and family members, and on the applicable poverty threshold for that family, which is determined by family size. The empirical analysis reported here attempts to sort out some of the linkages between low wages and family incomes. The major findings include:

- In March 1985, about 7 percent of all workers who reported being paid on an hourly basis were paid the minimum wage rate, and 3 percent were paid below that rate. 1/

- Only one-fifth of the 5.2 million workers who reported being paid at or below the minimum wage in March 1985 had worked year-round full-time in 1984, and only about 120,000 of these year-round full-time minimum wage workers were poor. The latter estimate is subject to a wide range of uncertainty, however.

- Four-fifths of all minimum wage workers are not poor, although those earning the minimum wage are much more likely to be poor than those whose wage rates are higher. Part of the explanation for why so many minimum wage workers are not poor is that over two-thirds of them are in families in which at least one other member has a job.

- Just one-quarter of all poor hourly wage workers are paid at or below the minimum rate, although poor workers are more likely to be paid the minimum than are nonpoor workers.

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1. Workers could legally be paid a wage rate below $3.35 per hour if they were not subject to the minimum wage rate or if they were subject to a special lower rate. Workers also might inaccurately report their wage rate.

Mr. WHEAT. Mr. Levy, let me go back to your original thesis which was, there has really been no significant increase in inequality. I recognize that you pointed out that there have been dramatic changes in some of the subgroups. But I was looking at the table that you provided, table one. Between 1949 and 1969, there seemed to be an increase in real equality, and then there seems to be a steady decrease since that time. Are you just judging that the percentages that you provide us are not significant in terms of a change? I'm not sure how you come to the conclusion that you have.

Mr. LEVY. Yes, yes.

Looking at the numbers I gave you, I would say that if you showed them; to most people and said, "Do those lines, 1949, 1959, and so on, look radically different from one another?" I would say that most people, or at least I myself—I can't speak for most people—would say those numbers have moved in fairly moderate limits.

If you turn to the next page, which is the graphs of the income distribution, my sense of what had gone on and what this issue of a vanishing middle class is about is that between 1947 and 1973, while inequality did not change dramatically, the whole income distribution was moving to higher and higher incomes and everybody was getting better off. So the issue of a vanishing middle class never surfaced.

Between 1973 and 1984, incomes have declined some, inequality has increased a little too, but what is driving this notion of a vanishing middle class is that being in the middle of the income distribution is no longer sufficient to buy what we have come to define as a middle class standard of living, and it is purchasing power more than just simple inequality that is giving rise to a lot of these issues.

Now if you feel that these numbers are big, that certainly is an interpretation. I just don't make that interpretation.

Mr. WHEAT. Would you say that the numbers you have provided to us indicate that the previous trend—and there clearly was, as you point out, a perception that there was going to be increased purchasing power available to people as they moved into the middle class—that that trend has ended?

Mr. LEVY. It certainly has ended over the last 12 years. Now what happens for the next 10 I don't know, but the last 12 years that has ended, yes, sir.

Mr. WHEAT. One more question about inequality. You point out the subgroups, that the treatment of the elderly has improved probably due to legislation that had been passed much earlier that just now we are seeing the effects of. But are there other subgroups that you would point to where there are clear trends toward a decreased percentage of income?

Mr. LEVY. No. I think the basic change I see is the one I mentioned before, that among families, families with children, incomes are getting less equal, in part for the demographic reasons I described and in part because of the recession, but that that doesn't show up in these statistics in table one, because as some families with children do worse, elderly families, on average, are doing better, and it is a kind of wash in the overall statistics.

Mr. **Wheat**. Specifically, I don't know if you have looked a this, but specific information about minority groups in this country, about single women who are heads of households, do your data show anything about the spread throughout the economy of income of those persons?

Mr. **Levy**. Sure. If you look at the income and equality, say, among black families, that has increased dramatically over the past 25 years. We know the reason for that. That is driven basically by demographics, the big split between female-headed households who average now about $8,000 a year and black husband-wife families who average now about $24,000 or $25,000 a year. As more families fall into the female-headed category, that spread just opens up like that. Sure.

Mr. **Wheat**. Mr. Bartlett, you made some interesting comments about part-time work also. I would refer you to page 8 of your statement. There is a line in there that refers to: "Mothers, for example, tend to prefer part-time to full-time jobs because it allows them more flexibility in balancing a job with child care. If part-time employment were not available to these women, many would not be able to work at all."

I take it here there is a suggestion that jobs would be going begging but for the fact that industry has chosen to create these part-time jobs just to have the ability to pull people into the job market.

Mr. **Bartlett**. I think that employers tailor their work schedules to attract the number and quality of people that they need. I'm not sure if I understand the thrust of your question.

Mr. **Wheat**. I think what you are suggesting is that there is a clear preference among mothers for part-time work as opposed to full-time work. You state it pretty strongly here.

Mr. **Bartlett**. Yes.

Mr. **Wheat**. And I would ask you how you square that with what the statistics would indicate, that now it takes two parents working full-time at lower level wages to support a family as opposed to 20 years ago when one person working in a family could support that same family.

Mr. **Bartlett**. I was only trying to make a comment about why people work part-time, and there wasn't necessarily any suggestion that women are taking these jobs because they necessarily have to maintain family incomes. They may just want to work. I was thinking more in the case of somebody who just wants to work because they want to and not because they necessarily have to to maintain a family income.

Chairman **Miller**. Would the gentleman yield?

Mr. **Wheat**. Certainly.

Chairman **Miller**. Just on that point, when you start to look at the economic distribution of families, they would also have to want to maintain a low-income family, those people who are in that work force. It seems to be some explanation that they are working part-time because that is the best they can do with child care arrangements; that there really is no other option for them; that they would obviously prefer to participate in a higher-income family, but that is not available to them either.

Mr. **Bartlett**. The BLS calculates data for people who are working part-time because they can't find full-time work versus people who are working part-time because they want to work part-time. I can provide that data. The number of people who are working part-time because they can't get full-time work is very small.

Chairman MILLER. The key hinges on why can't they.

Mr. BARTLETT. I don't know.

Chairman MILLER. One of the questions is, is that because they can't find decent child care, or is that because there is not a full-time job they want, or because they also want to take care of their child? I don't know the answer to that one.

Mr. COATS. Would you yield on that point?

Chairman MILLER. It is not my time, I'm sorry.

Mr. WHEAT. I would be happy to yield.

Mr. COATS. I have some statistics here, and I don't know how accurate they are, but the Council of Economic Advisors has supplied us with some numbers on this very question, and they indicated that 19 percent of persons that work are part-time employees and 70 percent are voluntary part-time workers, but the key figure here is that the share of involuntary part-time workers is 5 percent of the people that work, which would support what you were saying.

In other words, those who are working part-time because they can't find full-time work, according to the Council of Economic Advisors, is 5 percent. It is 5 percent more than we would like.

Mr. WHEAT. Reclaiming my time, if I heard what you just said, I thought of the entire work force 5 percent of the people who were working were involuntarily working part-time. Is that what you just read? That is not the same thing as saying that of the part-time workers only 5 percent of them would choose to work full-time. I would very much like to see statistics on that.

Ms. SCHOEN. You just gave it. The statistic is as you read it. There are roughly 70 percent who say it is voluntary and 30 percent who say it is involuntary on just the breakdown of the part-timers.

Mr. COATS. Yes. We don't know if it is involuntary working at all or involuntary working part-time. We need to get the statistics.

Ms. SCHOEN. But they don't ask them the child care question. They don't ask, "If you got higher pay, would you work more hours?" In fact, when people are asked would they work more hours at the same rate of pay, 30 percent say, "Yes, I would." So the part-time statistics are quite unknown in terms of what is actually out there, but the involuntary group is the fastest rising group over time of the whole part-time group.

Mr. COATS. Again, the statistics I have indicate that that share has fallen since 1982. But I think the key is to get the proper statistics in front of the committee.

Mr. LEVY. For what it is worth, and I'm not sure how much it is worth, the work/welfare experiments that are being run by the Manpower Development Research Corporation in New York and, I guess, about 10 or 12 States, including California, one of the things that surprised them was that day care turned out to be much less of an obstacle for welfare recipients to take jobs than they had thought. They thought that that was going to be a major problem, and it turns out that people manage to work things out somehow, maybe not ideally but somehow. If you want, I can dig that stuff up.

Mr. WHEAT. I, personally, would appreciate it if any member of the panel who can provide us information on the topic of why people work part-time, how many of them would work full-time if they had the opportunity, how day care affects their ability to work full-time or part-time, all of that would be important, and I would very much like to see it.

[The information follows:]

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Preferred hours of work and corresponding earnings

Most workers are satisfied with the number of hours they currently work, although about 1 of 4—especially young people and low earners—would prefer more hours and more money; very few would trade income for leisure time

Susan E. Shank

If given a choice of working the same, fewer, or more hours at the same rate of pay, most employees would prefer the same number of hours. An additional one-fourth would prefer to work more hours and earn more money, while 8 percent would choose to work fewer hours and earn proportionately less money. This finding that well over half of all workers are satisfied with their present hours and pay is based on information obtained from a new question on the May 1985 supplement to the Current Population Survey (CPS), and is consistent with results obtained from similar questions asked by Katona and others in 1966 and by Louis Harris and Associates in 1978.[1]

The degree of satisfaction with current hours and pay rises steadily with age. It is also positively related to the number of hours worked and the weekly earnings level. The "more hours and more money" option appeals especially to young people, many of whom are working only part time, and its popularity declines steadily with age. A large proportion of minority workers, especially men, would also prefer to work more hours and earn more money.

Very few employed persons wanted to work fewer hours and earn correspondingly less money. However, women were more likely than men to prefer reduced hours, even though it meant lower earnings. Also, the proportion choosing this alternative increased with age to a peak in the 35- to 44-age group.

The new CPS question asked for employee preferences on hours of work and corresponding earnings—given the same rate of pay. This question was last on the supplement because it differs significantly from other labor force questions, which focus on a person's activity and emphasize much more objective behavior. The question asked:

> If you had a choice, would you prefer to work:
> The same number of hours
> and earn the same money? .... ○
>
> Fewer hours at the same rate
> of pay and earn less money? .... ○
>
> More hours at the same rate
> of pay and earn more money? .... ○

Interviewers asked this question directly of the respondent—unlike other questions where a responsible person in the household could respond for all other household members. Self-response was required because preference is inherently individual and subjective. As a result, information was not obtained for approximately 22 percent of all employed persons. Nonresponse was higher for men than for women, and was substantially higher for teenagers and young adults than for persons age 25 and over. These were

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the persons less apt to be at home during the day and early evening hours when most interviews are conducted.

In spite of the difficulty in contacting individual respondents, answers were obtained from 8 of 10 wage and salary workers age 25 and over. In this article, distributions of persons wanting the same, fewer, or more hours and corresponding pay are based on the total who reported such preferences. Also, the data pertain only to wage and salary workers (excluding incorporated self-employed persons).

Although the following sections analyze workweek preferences separately by various demographic and job characteristics, it is important to note that many of these characteristics tend to occur simultaneously. For example, young people often work relatively few hours at low rates of pay and express a strong preference for more hours and more money. It should also be noted that preferences about work hours are already reflected, to some degree, in the jobs workers currently hold. This is particularly true for experienced adult workers who presumably have more control over their work schedules than do young people. The analysis of preferences by actual hours at work and by earnings focuses on the 25- to 54-age group in order to exclude those age categories where transition into and out of the labor market have a major impact on hours.

Effect of worker and job characteristics

Preferences about hours and pay differed by age and gender, as well as by present earnings level and actual hours worked. Correlations between workweek preferences and various worker and job characteristics were generally in the expected direction, although some of the magnitudes were surprising. For example, as weekly earnings rose, so did both the proportion of workers expressing satisfaction with their current schedules and the proportion opting for fewer hours and less money. However, it is noteworthy that relatively few men expressed a preference for fewer hours and less pay. Even among those who earned $1,000 or more per week, only 10 percent selected this alternative.

Age and gender. Almost two-thirds of all workers expressed satisfaction with their present hours and pay. This proportion rose steadily with age—from about 40 percent in the teen years to 80 percent for workers 55 and over. (See table 1.) Many older workers, especially those age 65 and over, voluntarily work part time, which contributes to the high degree of satisfaction with their present workweek.

While the proportion wanting to work the same hours increased with age, the percentage desiring more hours moved in the opposite direction. Slightly more than half of

Table 1. Workweek and pay preference of employed persons by selected characteristics, May 1985

[Numbers in thousands]

Characteristics	Total	Reported preference				Did not report preference
		Total	Same hours, same money (percent)	Fewer hours, less money (percent)	More hours, more money (percent)	
Total, 16 years and over	106,878	83,699	64.9	7.6	27.5	23,180
Wage and salary workers	97,110	76,195	64.8	7.5	27.7	20,915
Incorporated self-employed	2,831	1,963	75.0	11.4	13.7	868
All other wage and salary workers	94,280	74,232	64.6	7.3	28.1	20,048
Men, 16 years and over	51,106	37,400	63.5	5.9	30.6	13,706
16 to 19	3,208	1,950	39.7	2.6	57.8	1,257
20 to 24	6,980	4,883	48.5	3.9	47.7	2,097
25 to 34	15,583	11,957	60.4	6.0	33.6	3,625
35 to 44	11,387	8,376	66.8	6.7	26.5	3,012
45 to 54	7,684	5,521	72.6	6.7	20.6	2,163
55 to 64	5,236	3,932	79.5	6.8	13.7	1,304
65 and over	1,029	780	81.9	7.4	10.7	249
Women, 16 years and over	43,173	36,832	65.7	8.8	25.5	6,341
16 to 19	2,875	1,867	42.8	3.4	53.8	1,008
20 to 24	6,363	5,079	57.4	6.1	36.6	1,284
25 to 34	12,704	11,153	65.5	9.7	24.8	1,551
35 to 44	9,642	8,528	65.6	10.7	23.6	1,114
45 to 54	6,362	5,574	71.2	9.4	19.4	778
55 to 64	4,300	3,802	77.3	7.5	15.2	498
65 and over	927	829	81.3	6.9	11.8	98
White	81,699	64,419	65.5	7.7	26.8	17,280
Men	44,808	32,806	64.5	6.2	29.3	12,002
Women	36,891	31,613	66.5	9.4	24.2	5,278
Black	9,991	7,744	56.6	4.4	39.0	2,247
Men	4,934	3,537	54.0	3.8	42.2	1,398
Women	5,057	4,207	58.8	4.9	36.3	850
Hispanic origin	6,040	4,782	60.4	3.8	35.8	1,258
Men	3,663	2,816	58.0	2.6	39.3	848
Women	2,376	1,966	63.7	5.6	30.7	410
All other workers[1]	9,768	7,504	66.1	8.9	25.0	2,264

[1] Includes the self-employed (unincorporated) and unpaid family workers.

NOTE: Detail for the above race-Hispanic-origin groups will not sum to totals because data for the "other races" group are not shown and Hispanics are included in both the white and black groups.

the teenagers—many of whom work part time at low wages—said they wanted more hours and pay, but relatively few older workers wanted more hours. These differences reflect factors such as older persons' greater control over their work schedules, their higher earnings, and less desire for change.

The proportion preferring fewer hours and less pay was small in all age groups. Of the minority who wanted to change their schedules, more hours were preferred 4 to 1 over fewer hours. Only 4 percent of all workers under age 25 would like the fewer hours alternative. Even in the central age groups, where this option was most popular, fewer than 10 percent preferred it.

Women were more likely than men to prefer fewer hours and less pay. In the 25- to 54-age group, where child care and other household responsibilities are greatest, about 10 percent of the women and 6 percent of the men wanted fewer hours. The proportion of women preferring this option then declined to about 7 percent in the 55 and over age group. In contrast, the proportion of men wishing to work fewer hours rose with age until the mid-thirties, but then held steady at about 7 percent for subsequent age groups.

Men preferred to work longer hours somewhat more frequently than women. This difference was most evident in the young adult years, when household formation and spending for consumer goods is high. However, the proportions preferring to work more hours declined with age, and in the 45 and over age groups were virtually the same for women and men. In fact, for older workers there was little difference between the preferences of men and women. Approximately 80 percent of all workers 55 years and over were satisfied with their hours; about 13 percent preferred longer workweeks, while 7 percent opted for fewer hours.

Whites, blacks and Hispanics. Satisfaction with current hours and pay was greater for whites than minorities, with this difference most apparent among men. (See table 1.) The relatively low satisfaction level for both blacks and Hispanics is associated with high proportions wanting more hours and more money. Approximately 4 of 10 black and Hispanic men said they would prefer more hours, compared with about 3 of 10 white men. The fewer hours and related paycut option was selected by only 4 percent of all black and Hispanic workers, whereas about 8 percent of whites made this choice.

Table 2. Workweek and pay preference of 25- to 54-year-old wage and salary workers, by actual hours at work, May 1985

[Percent distribution]

Hours at work	Reported preference		
	Same hours, same money	Fewer hours, less money	More hours, more money
1 to 14	50.9	4.6	44.5
15 to 29	57.3	5.6	37.1
30 to 34	58.6	8.0	33.4
35 to 39	65.0	8.1	26.9
40	70.5	7.1	22.5
41 to 48	65.3	8.1	26.6
49 to 59	66.5	10.8	22.7
60 and over	63.9	16.3	19.8

NOTE: Data exclude incorporated self-employed workers.

Hours worked. The proportion preferring the same hours and the same money increased steadily with hours actually worked up through 40 hours; it then turned downward. (See table 2.) As would be expected, the fraction wanting more hours and more money fell as hours worked rose—but again only through 40 hours. The changes in preference patterns at the 40-hour and 41- to 48-hours categories are somewhat surprising. The peak in satisfaction at 40 hours may reflect widespread acceptance of the traditional 40-hour workweek, while the monetary influence of the initial hours paid at premium rates, which many workers receive after 40 hours, may explain the small increase in the more hours response. In any case, the proportion wanting more hours declined again when actual hours reached 49 to 59 per week, and fell further (to about 20 percent) for those working 60 hours and over. In contrast, the fraction preferring fewer hours rose with actual worktime up to 35 to 39 hours; it then dipped at 40 hours before resuming its uptrend. However, even when the workweek was 60 hours or more, the proportion preferring more hours was larger than that preferring fewer hours.

Occupation and industry. The pattern of workweek preferences differed sharply across occupations, but variations were smaller among industry groups. (See table 3.) As would be expected, satisfaction was greatest among highly educated

Table 3. Workweek and pay preference of wage and salary workers, by occupation and industry, May 1985

[Percent distribution]

Occupation or industry	Same hours, same money	Fewer hours, less money	More hours, more money
Occupation			
Managerial and professional specialty	72.3	9.7	18.0
Technical, sales, and administrative support	66.1	8.3	25.6
Service occupations	56.6	4.5	38.9
Precision production, craft, and repair	63.5	6.4	30.1
Operators, fabricators, and laborers	59.4	5.6	35.0
Farming, forestry, and fishing	49.4	5.0	45.6
Industry			
Agriculture	49.4	7.3	43.3
Nonagriculture	64.8	7.3	27.8
Mining	66.3	8.0	25.6
Construction	58.6	5.3	36.1
Manufacturing	66.7	7.5	25.8
Transportation and public utilities	68.7	7.8	23.5
Wholesale trade	66.3	7.4	26.3
Retail trade	56.3	6.4	37.3
Finance, insurance, and real estate	68.6	8.0	23.5
Services	65.6	7.8	26.5
Public administration	72.3	7.2	20.5

NOTE: Data exclude incorporated self employed workers.

and well paid managerial and professional workers. These occupations also scored relatively high on the fewer hours choice and low on the more hours option.

Satisfaction with the current workweek and pay was less common among semi- and low-skilled manual workers and in the service occupations. Only about half of the helpers and laborers, and farming, forestry, and fishing workers wanted to keep the same hours. Here again, low satisfaction with the status quo correlated with a high preference for more hours. The latter alternative was picked by between 40 and 45 percent of the service workers, helpers and laborers, and those in farming, forestry, and fishing occupations.

Public administration was the industry with the highest proportion of workers preferring their current hours, and agriculture was the lowest. Satisfaction was also relatively low in retail trade, where the average workweek is short, and in construction, where hours of work are often irregular. Approximately 4 of 10 workers in retail trade, construction, and agriculture wanted more hours. However, in public administration only 2 of 10 preferred a longer workweek.

Work-leisure tradeoffs

The data on preferred hours of work may be used to examine the effect of income on tradeoffs people make between work and leisure.[2] According to labor supply theory, individuals decide how many hours to work based on their preferences for leisure versus all other goods and services. The wage rate represents the amount of consumption goods that can be obtained per hour worked. As the wage rate rises, two opposing effects are brought to bear on the hours decision.[3] *The substitution effect* leads to a decrease in leisure consumed and an increase in hours worked because leisure time costs more in terms of earnings forgone. In contrast, *the income effect* causes hours of work to fall because at the higher income associated with the higher wage rate, individuals will want to purchase more goods generally, including leisure.

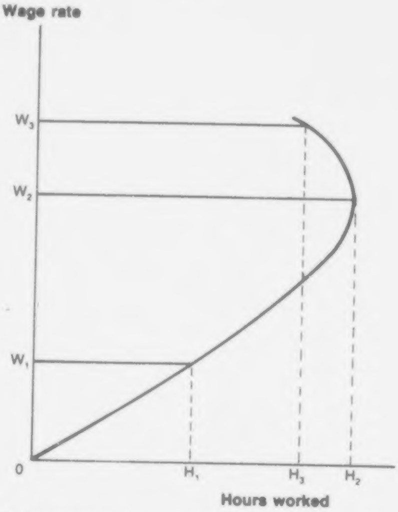
Table 4. Workweek and pay preference of 25- to 54-year-old wage and salary workers, by sex and earnings, May 1985

[Percent distribution]

Weekly earnings	Same hours, same money	Fewer hours, less money	More hours, more money
Men, total	65.5	6.5	28.0
Less than $150	39.3	3.9	56.7
$150 to $199	43.9	3.4	52.7
200 to 249	55.6	4.2	40.2
250 to 299	60.8	2.9	36.3
300 to 399	62.6	7.0	30.5
400 to 499	66.6	6.5	26.9
500 to 599	71.9	7.9	20.3
600 to 749	73.0	7.8	19.1
750 and over	76.6	8.9	14.5
Women, total	67.2	10.9	21.9
Less than $150	55.6	5.0	39.4
$150 to $199	66.6	7.4	25.9
200 to 249	66.6	12.2	21.2
250 to 299	66.2	14.1	19.7
300 to 399	72.6	11.9	15.5
400 to 499	75.7	12.4	11.9
500 to 599	72.0	15.2	12.8
600 to 749	73.2	13.9	12.9
750 and over	63.6	22.0	14.6

NOTE: Data exclude incorporated self-employed workers.

The interaction of these two effects determines whether more or fewer hours of labor will be supplied when the wage rate rises. Both the substitution and income effects are evident in the backward-bending labor supply curve illustrated below:



The lower part of the curve is positively sloped, meaning that at lower wages, labor hours supplied increase as the wage rises. However, above a certain wage rate *(W_2)*, the curve may begin to bend backward, as the income effect dominates.

May 1985 data on preferred hours by earnings suggest some indirect support for the backward-bending supply curve theory.[4] As earnings rise to high levels for prime working-age adults, smaller proportions want to increase their workweeks and larger fractions prefer to decrease their hours of work.[5] (See table 4.) This finding could reflect a strong income effect—causing workers with the highest earnings to want to reduce their work hours—as occurs on the negatively sloped part of the backward-bending supply curve. It could also indicate that workers with lower weekly earnings also have shorter workweeks and are more likely to want to increase, rather than decrease, their hours. Moreover, it is important to note that for men—even men earning $750 or more per week—the proportion wanting more hours of work exceeded that wanting fewer hours.

Women are more willing than men to forgo income for leisure. This was evident at virtually all earnings levels—especially in the prime working-age groups. (See table 4.) About 1 of 8 women earning $200–$499 per week would prefer to work fewer hours. Moreover, when weekly earnings reached $500 or more, the proportion preferring fewer hours was greater than that wanting more hours. No other worker group studied displayed this preference pattern. In the highest earnings category, about one-fifth of the women expressed a preference for shorter hours (more leisure), while only one-seventh wanted longer workweeks (more income). It is also interesting to note that women's satisfaction with their current hours increased as earnings rose only up to a point. Once earnings reached $300 or more per week, the proportion satisfied leveled off, and it then fell in the highest earnings category.

The preference pattern for prime working-age men differed sharply from that for women. At all earnings levels, the proportion of men wanting more hours was substantially larger than the proportion preferring more leisure. In the $300 to $499 earnings range, men preferred more hours 4 to 1 over fewer hours. Even at weekly earnings of $500 and over, only about 8 percent of prime working-age men were willing to trade income for leisure, whereas 15 to 20 percent wanted more hours and more money. Also, the proportion of men satisfied with the length of their workweek continued to rise as earnings increased. The substitution effect seems to outweigh the income effect for prime working-age men—even when earnings are extremely high.

IN SUM, two of three employed persons in May 1985 said they would prefer to work the number of hours they currently work and earn the same money. An additional one-fourth wanted to work more hours and earn more money. Only 8 percent would choose a shorter workweek and less money. As might be expected, the degree of satisfaction with present hours rose with age and with weekly earnings. In contrast, the proportion wanting to work more hours and earn more money, which was high for young people and low earners, fell sharply as age and earnings increased. Women were more likely than men to prefer fewer hours and a proportionate reduction in pay. Although the proportion of men and women willing to forgo income for leisure time was generally small, it rose steadily as weekly earnings increased. This suggests that at very high earnings, the labor supply curve may bend backward. ☐

—FOOTNOTES—

[1] See G. Katona, B. Strumpel and E. Zahn, *Aspirations and Affluence* (New York, McGraw-Hill, 1971), pp. 128–33, and Fred Best, "Exchanging Earnings for Leisure: Findings of an Exploratory National Survey on Work Time Preferences" (U.S. Department of Labor, Employment and Training Administration), R&D Monograph 79. The Katona and others questions were asked of a nationally representative sample of household heads. The Harris survey was based on a national sample of employed civilians 17 years of age and over. These two surveys obtained the following results:

	Percent preferring		
	Same	*Fewer*	*More*
Katona and others, 1966	56	10	34
Louis Harris and Associates, 1978	61	11	28

[2] Leisure in this context represents all time except paid worktime. In other words, it includes time spent on housework, child care, school attendance and numerous other activities that are not commonly defined as leisure.

[3] Economists have argued about the relationship between the wage rate and the quantity of labor supplied since the English mercantilists in the 1600's. The landmark twentieth century work in this field is Lionel Robbins' "On the Elasticity of Demand for Income in Terms of Effort," *Economica*, June 1930, pp. 123–29. After pointing out that the demand for income can also be viewed as the supply of effort, Robbins says there is no *a priori* way to predict how a change in the wage rate will affect hours of work. Rather, one must observe how individuals vary the amount of work done when the wage rate changes. The same point is addressed in terms of income versus substitution effects by Paul A. Samuelson in *Economics*, 3d ed. (New York, McGraw-Hill, 1955), pp. 535–36.

[4] Cross-sectional data on preferences for more and fewer hours of work by weekly earnings are used as proxies for substitution and income effects. Data on hours that individuals chose to work at different pay rates are not available.

[5] Because only one-quarter of the wage and salary workers in the sample are asked the earnings questions, the standard errors of earnings estimates are relatively large. For this reason, percentages are not shown where the base is less than 100,000.

Monthly Labor Review vol. 109, no. 2 (February 1986)

Part-time workers: who are they?

A new definition of part-timers, utilizing existing data from the Current Population Survey, gives a more accurate estimate of the number of part-time workers

THOMAS J. NARDONE

Although typically pictured as working 40 hours a week, the American work force includes a substantial number of persons who put in far fewer hours. Young people working while attending school, parents juggling childrearing and career responsibilities, those in retirement wishing to remain partly active in the work force, and workers whose hours have been reduced because of economic conditions are examples of persons who either choose or have to settle for part-time employment.

Because of the variety of situations found in the workplace, labor market analysts who study part-time employment have sometimes found it a difficult concept to define. Although the official government definition of part-time work is clear, estimating the number of part-time workers is more complex. It depends on exactly what is being measured—the total number of persons who worked part-time hours during the survey reference week, the number who choose to work part-time hours, or the number who typically work part time.

Each month the Bureau of Labor Statistics publishes data on the number of hours worked by persons during the survey reference week and considerable detail about persons who work less than 35 hours a week—the official boundary between full- and part-time employment.[1] The data collected include both the reasons people work less than 35 hours as well as their usual full- or part-time status.

To reflect the diversity of the workplace, BLS disaggregates the data about people at work less than 35 hours into three subgroups: (1) those voluntarily at work part time, (2) those working part time for economic reasons, and (3) those who usually work full time but worked less than 35 hours during the reference week because of holiday, illness, vacation, or similar reasons. These data are combined with information on several other groupings—persons at work more than 35 hours (full-time workers), employed persons who were not at work during the survey reference week, and unemployed persons—to yield estimates of the full- and part-time labor forces. These categories are useful for a variety of analyses. The number of persons at work part time for economic reasons, for example, is of interest as a measure of underutilization of human resources and also is an important indicator of the cyclical movements in the labor market.[2] Data about the full- and part-time labor forces are used for unemployment rate calculations and to develop several of the alternative measures of unemployment that enhance our understanding of the labor market.[3]

Despite their usefulness, none of these groupings actually provides an estimate of the number of people who usually work part time. For example, the concept of voluntary part-time employment excludes persons who want full-time work but settle for a part-time job. The "at work" concept excludes the people who have part-time jobs but were away from their jobs during the survey reference week because of vacation, illness, or other reasons. The labor force categories classify some people according to the type of job they

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want, not necessarily the type they have.

This article discusses available BLS data about part-time workers, describing what information is published, and suggests a new combination of the data—all persons who usually work part time—which would provide a more accurate estimate of part-time employment. The data are based on the Current Population Survey (CPS), a monthly sample survey of about 60,000 households nationwide, which provides information on the employment and unemployment status and related characteristics of the civilian population 16 years of age and over.

Defining full and part time

When defining the full- and part-time status of workers, the first consideration is the number of hours worked during the survey reference week. As mentioned previously, 35 hours is the boundary between full- and part-time employment. Part-time work is defined as less than 35 hours a week. Working less than 35 hours during the survey week, however, is not a sufficient condition for classifying a person as a part-time worker. The worker's usual schedule and reason for working less than 35 hours a week also must be considered.[4] In addition to workers' preference, reasons for part-time hours can be economic—slack work, material shortages, beginning or ending a job, or because only a part-time job could be found—or noneconomic—holiday, vacation, illness, or bad weather. Based on their usual schedule and their reason for working a part-time schedule, persons at work less than 35 hours a week are allocated according to the pattern shown in table 1.

Those who usually work full time but during the survey reference week worked less than 35 hours for noneconomic reasons—5.6 million in 1985—are combined with those who worked more than 35 hours during the survey week under the label "full-time schedules." In terms of "labor force" classification, persons at work on "full-time schedules" are combined with persons who are not at work during the reference week but usually work more than 35 hours, those working "part time for economic reasons," and unemployed workers seeking full-time jobs to form the "full-time labor force." (See box.)

Table 1. Persons at work 1 to 34 hours by reason for working less than 35 hours, and usual status, 1985 annual averages

[In thousands]

Reason for working less than 35 hours	Total	Usually work full time	Usually work part time
Total, 16 years and older	24,682	7,342	17,340
Economic reasons	5,590	1,739	3,851
Slack work	2,430	1,398	1,032
Material shortages or repairs to plant and equipment	62	62	—
New job started during week	190	190	—
Job terminated during week	90	90	—
Could find only part-time work	2,819	—	2,819
Other reasons	19,092	5,603	13,489
Does not want, or unavailable for full-time work	11,217	—	11,217
Vacation	1,380	1,380	—
Illness	1,539	1,395	144
Bad weather	674	674	—
Industrial dispute	8	8	—
Legal or religious holiday	682	682	—
Full time for this job	1,545	—	1,545
All other reasons	2,086	1,484	582

Components of the full- and part-time labor forces

Full-time labor force:

- Employed persons on full-time schedules
- Employed persons working part time for economic reasons
- Employed persons not at work, who usually work full time
- Unemployed persons seeking full-time work

Part-time labor force:

- Employed persons working part time voluntarily
- Employed persons not at work, who usually work part time
- Unemployed persons seeking part-time work

The workers who usually work part time for noneconomic reasons—13.5 million in 1985—are classified as the "voluntary part-time employed," a group that has been the focus of several studies in recent years.[5] They clearly are part-timers. The vast majority of these workers do not want or are unavailable for jobs which call for 35 hours or more of work per week. The voluntary part-time group plus those employed persons not at work during the reference week who usually work less than 35 hours a week and unemployed workers who are seeking part-time jobs form the "part-time labor force." (See box.)

As stated above, workers who put in less than 35 hours a week because of slack work, the inability to find full-time work, or similar reasons—the 5.6 million workers on part time for economic reasons in 1985—are included in the full-time labor force. However, by treating them as a single group, the usual full-time/part-time work status of such workers is not readily identified. And, the two main components of the group—persons on slack work and persons who could only find part-time jobs—are quite dissimilar in terms of their usual work status.

Most of the workers on "part time for economic reasons" due to "slack work" usually work full time, while all who "could only find part-time work" usually work part time. Persons who worked less than 35 hours during the reference week because of slack work, but who usually work full time, are workers who have full-time jobs but are on a reduced work schedule temporarily because of low demand. This group expects to return to a full-time schedule when economic conditions improve, and thus it seems reasonable to view such persons as full-time workers. Those who worked less than 35 hours because they "could only find part-time work," however, present a somewhat different situation. Despite their desire for full-time work, these persons only have part-time jobs. Their part-time status may or may not change as economic conditions improve, because they would have to find another job in order to become full-time workers. Therefore, to arrive at a more accurate estimate of the number of persons who typically work part time, it is necessary to disaggregate those working part time for economic reasons into two groups according to their usual full- or part-time schedule.

Several characteristics of those working part time for economic reasons illustrate the differences between the usual full-time and usual part-time workers. The data suggest that those who normally work full time resemble workers on "full-time schedules," whereas persons who normally work part time are more like voluntary part-time workers. One example is the number of hours worked. The following tabulation shows the percent of workers on part-time schedules for economic reasons and those on voluntary part time by the number of hours worked, 1985:

	Part time for economic reasons		*Voluntary part time*
	Usually full time	*Usually part time*	
Total	100.0	100.0	100.0
1 to 4 hours	1.3	3.5	4.4
5 to 14 hours	10.9	17.2	22.8
15 to 29 hours	42.9	54.8	54.2
30 to 34 hours	44.9	24.5	18.6

While close to half (45 percent) of the usual full-timers worked 30 to 34 hours a week, only a quarter of the usual part-timers did. More than half of the usual part-timers worked the number of hours—15 to 29 a week—typical for the "voluntary part time."

Another characteristic by which the two groups differ is the distribution by sex. As is true for people on full-time schedules, the majority of persons working part time involuntarily who usually work full time are men. In contrast, the majority of those who usually work part time—voluntarily or involuntarily—are women.

Persons who usually work part time are also like voluntary part-timers in their industrial and occupational distribution. The services and retail trade industries account for the vast majority of workers in both groups. The following tabulation shows the distribution, by industry, of nonagricultural wage and salary workers on part time for economic reasons and those on voluntary part time, 1985:

	Part time for economic reasons		*Voluntary part time*
	Usually full time	*Usually part time*	
Total	100.0	100.0	100.0
Retail trade	19.0	40.3	37.0
Services	22.4	35.4	42.6
Other industries	58.6	24.3	20.4

Among those part time for economic reasons who usually work full time, a sizable proportion are in the manufacturing and construction industries. The occupational distributions reflect these industry differences. "Sales" and "service" occupations accounted for the largest part of both voluntary and involuntary usual part-timers. In contrast, "precision production, craft, and repair" and "operator, fabricator, and laborer" occupations accounted for about half the economic part-timers who usually are full time.

The inclusion of all persons usually working part time for voluntary and economic reasons in the count of persons employed part time also helps reconcile recent trends in part-time employment and industry growth, and highlights the importance of part-time workers in the labor market. Between 1979 and 1985, employment in retail trade and services increased by 7 million. Because firms in those industries make extensive use of part-time workers, a significant rise in part-time employment also should have occurred during that period. Voluntary part-time employment—the traditional measure of part-time employment—increased by only 596,000. If all persons who usually work part time are tallied, however, the increase for the period would have been 2.4 million. This is more in line with the growth in retail trade and service employment. Further, the part-time employed measure shows that during the 1970's and early 1980's, part-time employment grew more rapidly than full-time employment. (See chart 1.) The rapid growth of part-time employment has led to some restructuring of the work force. Between 1968 and 1980, the proportion of employed persons who work part time edged up from 14 to 17 percent. The proportion reached 18 percent in 1982 as the recession forced more workers to settle for part-time employment. However, as the economy recovered during the 1983-85 period, the percentage returned to 17 percent.

Based on the findings presented above, it would seem that the most simple, straightforward answer to the question "How many part-time workers are there?" is a tally of the number of workers who usually work part time, regardless of the reason for their short hours. It would more accurately estimate the number of part-time workers according to the kinds of jobs they typically have.[6] Beginning with data for January 1986, the Bureau is revising table A–9 in its monthly periodical *Employment and Earnings*, to show employment by usual full- and part-time status in line with the concepts discussed in this article. Table 2 presents 1985 annual average data displayed by the format for the revised monthly table. Historical data are presented in table 3. Monthly and quarterly seasonally adjusted data series will be available in April 1986.

Characteristics of part-time workers

Younger (ages 16 to 24) and older (65 and over) workers account for a much higher proportion of the part- than full-time employed. (See table 4.) A part-time schedule allows young people to attend school while working. The connection between part-time work and school attendance is shown in the new BLS series on employment status by school enrollment. In October 1985, 6.3 million people between the ages of 16 and 24 were in school and employed. About four-fifths of these worked part time. By comparison, of the 13.8 million in that age group who worked but were not enrolled in school, fewer than 15 percent were part-timers.[7] Part-time schedules are attractive to older workers, who use them to ease the transition into retirement. These jobs also provide supplementary retirement income.

While age differences between part- and full-time workers occur among both sexes, differences are more pronounced among men. Nearly two-thirds of male part-timers are 16 to 24 years old or 65 years and older, compared with only one-third of their female counterparts.

Women make up the majority of the part-time employed—two-thirds of the total in 1985. (See table 4.) While full-time employment is the norm for both sexes, about 27 percent of the women are employed part time, compared with 10 percent of the men. This difference probably reflects the higher proportion of women who also handle household and childrearing responsibilities and therefore need flexibility in their work schedules.

About 6 of 10 women employed part time are married with their spouse present, about the same proportion as women who are employed full time. About 3 of 10 have never been married, a higher ratio than among women employed full time. This reflects the fact that female teenagers are more likely to be part-timers.

While most women who are employed part time are married, most men are single. Men who work part time are three times as likely as those employed full time to be single. This difference results from the high proportion of very young men working part time.

As shown in the tabulation below, a slightly higher proportion of whites than blacks were employed part time in 1985—18 versus 16 percent. This difference was greater among women than men. Women accounted for about two-thirds of those usually employed part time among each racial group. (Also see table 4.)

	Percent of employed persons usually working	
	Full time	*Part time*
White	82.4	17.6
Men	90.2	9.8
Women	72.4	27.6
Black	84.0	16.0
Men	88.1	11.9
Women	79.9	20.1

Industry and occupational distribution

Part-time workers are more apt than their full-time counterparts to hold jobs in retail trade and services industries.

Chart 1. Index of full- and part-time employment and part-time employment as a proportion of total employment, 1968–85

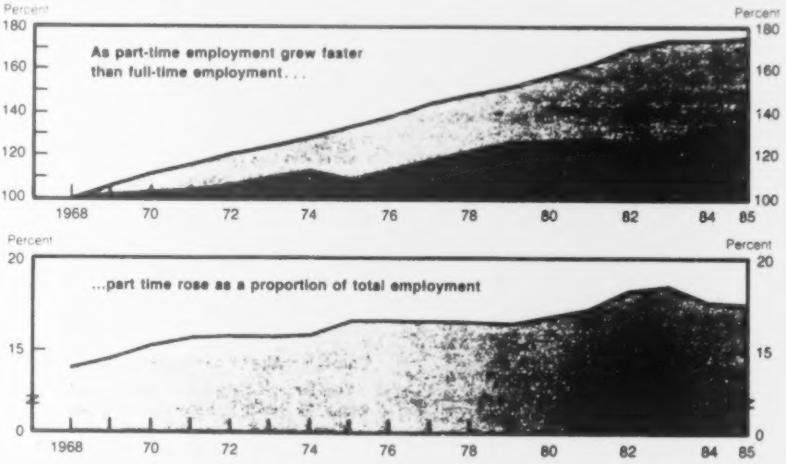

Table 2. Employed and unemployed full- and part-time workers by sex, age, and race, 1985 annual averages

[In thousands]

Sex, age, and race	Employed						Unemployed	
	Full time			Part time				
	Total	Full-time schedules[1]	Part time for economic reasons, usually work full time	Total	Voluntary[1]	Part time for economic reasons, usually work part time	Looking for full-time work	Looking for part-time work
Total								
Total, 16 years and over	88,535	86,795	1,740	18,615	14,740	3,851	6,793	1,519
16 to 19 years	2,507	2,375	132	3,927	3,278	649	777	690
16 to 17 years	440	412	28	2,053	1,830	223	198	463
18 to 19 years	2,066	1,962	104	1,875	1,449	426	579	227
20 years and over	86,029	84,421	1,608	14,688	11,486	3,202	6,015	829
20 to 24 years	10,981	10,683	298	2,999	2,163	836	1,493	246
25 years and over	75,047	73,737	1,310	11,689	9,323	2,366	4,522	583
25 to 54 years	64,044	62,931	1,113	8,405	6,447	1,958	4,056	438
55 years and over	11,003	10,806	197	3,284	2,876	408	466	146
Men, 16 years and over	53,862	52,832	1,030	6,028	4,486	1,542	3,925	596
16 to 19 years	1,437	1,357	80	1,891	1,574	317	446	360
20 years and over	52,425	51,475	950	4,137	2,912	1,225	3,479	236
20 to 24 years	6,079	5,895	183	1,261	872	389	857	87
25 years and over	46,346	45,580	766	2,876	2,040	836	2,622	149
25 to 54 years	39,207	38,557	650	1,568	878	690	2,329	79
55 years and over	7,139	7,023	116	1,308	1,162	146	293	70
Women, 16 years and over	34,672	33,963	709	12,587	10,278	2,309	2,869	923
16 to 19 years	1,069	1,017	52	2,036	1,704	332	331	330
20 years and over	33,604	32,946	658	10,551	8,574	1,977	2,538	593
20 to 24 years	4,903	4,788	115	1,738	1,291	447	638	158
25 years and over	28,701	28,158	543	8,812	7,283	1,529	1,900	434
25 to 54 years	24,838	24,375	463	6,837	5,569	1,268	1,727	359
55 years and over	3,862	3,782	80	1,976	1,715	261	173	75
White								
Men, 16 years and over	47,824	46,953	871	5,222	4,009	1,213	2,961	465
16 to 19 years	1,298	1,229	69	1,686	1,421	265	318	274
20 years and over	46,526	45,724	802	3,536	2,588	948	2,642	192
20 to 24 years	5,371	5,213	158	1,057	759	298	624	70
25 years and over	41,156	40,511	644	2,480	1,829	651	2,019	122
25 to 54 years	34,682	34,137	545	1,283	752	531	1,778	63
55 years and over	6,473	6,374	99	1,197	1,077	120	241	59
Women, 16 years and over	29,441	28,859	582	11,249	9,363	1,886	2,027	738
16 to 19 years	953	907	46	1,831	1,548	283	230	252
20 years and over	28,488	27,952	536	9,418	7,835	1,583	1,797	486
20 to 24 years	4,290	4,198	92	1,517	1,153	364	420	121
25 years and over	24,197	23,753	444	7,901	6,682	1,219	1,377	365
25 to 54 years	20,811	20,438	373	6,182	5,168	1,014	1,236	301
55 years and over	3,386	3,315	71	1,719	1,514	205	142	65
Black								
Men, 16 years and over	4,642	4,507	135	629	341	288	838	112
16 to 19 years	118	108	10	161	115	46	119	74
20 years and over	4,524	4,399	125	468	226	242	719	38
20 to 24 years	567	546	21	159	75	84	209	15
25 years and over	3,957	3,853	104	310	152	158	510	23
25 to 54 years	3,429	3,341	88	221	85	136	465	14
55 years and over	528	512	16	89	67	22	45	9
Women, 16 years and over	4,180	4,073	107	1,051	665	386	757	156
16 to 19 years	92	87	5	161	117	44	95	69
20 years and over	4,088	3,986	101	890	548	342	662	87
20 to 24 years	501	481	20	171	95	76	198	32
25 years and over	3,585	3,504	81	720	453	267	445	55
25 to 54 years	3,200	3,125	75	499	281	218	435	45
55 years and over	385	379	6	221	172	49	10	10

[1] Employed persons with a job but not at work are distributed according to whether they usually work full or part time.

NOTE: Detail may not add to totals because of rounding.

Together, these industries accounted for 79 percent of the part-time nonagricultural wage and salary workers. This concentration is mirrored in the occupational distribution; nearly half of all part-timers are in sales or service jobs.

The high concentration of part-time workers in retail trade and services reflects their importance in these industries. A third of the wage and salary workers in retail trade and a fifth of those in services are employed part time. The extensive use of part-time workers in these industries results from the need of such businesses to offer services to customers during evenings and other times that are not readily staffed by full-timers. In goods-producing industries where operations generally are conducted in one 8-hour shift or more, the usefulness of part-time workers is limited. As a result, these

Table 3. Employed full- and part-time workers by sex and age, 1968–85 annual averages

[In thousands]

Year	Total: Total	Total: Full time	Total: Part time	Men, 20 years and over: Total	Men, 20 years and over: Full time	Men, 20 years and over: Part time	Women, 20 years and over: Total	Women, 20 years and over: Full time	Women, 20 years and over: Part time	Both sexes, 16 to 19 years: Total	Both sexes, 16 to 19 years: Full time	Both sexes, 16 to 19 years: Part time
1968	75,920	65,276	10,643	44,859	42,720	2,139	25,281	19,600	5,681	5,781	2,958	2,823
1969	77,902	66,596	11,306	45,388	43,100	2,288	26,397	20,454	5,944	6,117	3,042	3,074
1970	78,676	66,752	11,924	45,581	43,138	2,444	26,952	20,654	6,297	6,144	2,960	3,183
1971	79,367	66,973	12,394	45,912	43,322	2,591	27,246	20,769	6,477	6,208	2,882	3,326
1972	82,153	69,213	12,938	47,130	44,475	2,654	28,276	21,536	6,741	6,746	3,202	3,543
1973	85,064	71,803	13,262	48,310	45,637	2,673	29,484	22,494	6,990	7,271	3,672	3,599
1974	86,794	73,091	13,702	48,922	46,157	2,764	30,424	23,181	7,243	7,448	3,753	3,695
1975	85,846	71,586	14,260	48,018	45,051	2,966	30,726	23,242	7,484	7,104	3,292	3,810
1976	88,752	73,965	14,788	49,190	46,175	3,016	32,226	24,406	7,819	7,336	3,384	3,953
1977	92,017	76,626	15,393	50,555	47,403	3,152	33,775	25,587	8,187	7,688	3,636	4,054
1978	96,048	80,195	15,855	52,143	49,007	3,136	35,838	27,326	8,511	8,070	3,862	4,208
1979	98,824	82,654	16,171	53,308	50,174	3,134	37,434	28,622	8,812	8,083	3,858	4,225
1980	99,303	82,564	16,742	53,101	49,698	3,403	38,492	29,391	9,102	7,710	3,474	4,237
1981	100,397	83,242	17,154	53,582	50,092	3,490	39,590	30,040	9,549	7,225	3,110	4,115
1982	99,526	81,419	18,106	52,891	48,985	3,906	40,086	30,007	10,079	6,549	2,517	4,031
1983	100,834	82,322	18,511	53,487	49,264	4,223	41,004	30,680	10,324	6,342	2,378	3,964
1984	105,005	86,544	18,461	55,769	51,624	4,145	42,793	32,404	10,388	6,444	2,516	3,928
1985	107,150	88,535	18,615	56,562	52,425	4,137	44,154	33,604	10,550	6,434	2,507	3,927

NOTE: Detail may not add to totals because of rounding.

Table 4. Employed persons by usual status and age, sex, and race, 1985

[In percent]

Characteristic	Employed: Usually full time	Employed: Usually part time
Age		
16 years and over (in thousands)	88,535	18,615
16 to 19	2.8	21.1
16 and 17	0.5	11.0
18 and 19	2.3	10.1
20 and over	97.2	78.9
20 to 24	12.4	16.1
25 to 34	31.1	19.8
35 to 44	24.7	15.5
45 to 54	16.6	9.8
55 to 64	10.9	9.9
55 to 59	6.8	4.9
60 to 64	4.1	5.0
65 and over	1.5	7.8
Sex and race		
Total (in thousands)	88,535	18,615
Men	60.8	32.4
Women	39.2	67.6
White	100.0	100.0
Men	61.9	31.7
Women	38.1	68.3
Black	100.0	100.0
Men	52.6	37.4
Women	47.4	62.6

industries have very low percentages of part-time workers. And, the occupations that are concentrated in those industries such as precision production, craft, and repair and operators, fabricators, and laborers have a very low percentage of part-time workers. As expected, another occupational group that typically has a low percentage of part-timers is executive, administrative, and managerial.[8]

AN ALTERNATIVE WAY of combining existing data to estimate the number of part-time workers has been presented in this article. Counting as "part-time employed" all persons who usually work less than 35 hours a week appears to reflect existing labor market conditions. However, there are limitations to this estimate. To the extent that some workers hold a full-time as well as a part-time job or combine two separate part-time jobs in order to work more than 35 hours a week, the suggested "part-time employed" figure underestimates the number of part-time jobs. This problem occurs because, in the CPS, multiple job-holders are counted only once. Nevertheless, the CPS data are the only source of current information about workers on part-time schedules, and defining the part-time employed as suggested in this article appears to be an accurate way to answer the often-asked question: How many part-time workers are there? ☐

FOOTNOTES

[1] This definition has been in effect since 1947. Over the years some labor market analysts have suggested this cutoff be revised, arguing that overall hours of work have declined over the long run, and thus the 40-hour standard workweek, upon which the definition of the full-time workweek is based, may no longer be the norm. The National Commission on Employment and Unemployment Statistics addressed the issue in their report, *Counting the Labor Force*. They found no evidence of a significant change from the 40-hour standard and thus recommended that 35 hours continue to be used as the dividing line between part- and full-time work. See *Counting the Labor Force*, National Commission on Employment and Unemployment Statistics (Washington, Government Printing Office, 1979), pp. 54–55.

[2] For a discussion of the cyclical sensitivity of this measure and its component parts, see Robert W. Bednarzik, "Short workweeks during economic downturns," *Monthly Labor Review*, June 1983, pp. 3–11.

[3] Each month in the news release, "The Employment Situation," BLS publishes a set of alternative measures of unemployment. These measures, labeled U-1 through U-7, are designed to reflect a wide range of assumptions about unemployment. Three of the alternatives involve the full-time/part-time concepts. U-4 is defined as unemployed full-time jobseekers as a percent of the full-time labor force. U-6 is defined as total full-time jobseekers plus half of the part-time jobseekers plus half of the total working part time for economic reasons as a percent of the civilian labor force less

half of the part-time labor force. U-7 is the same as U-6 with the number of discouraged workers added to the count of jobseekers and the civilian labor force.

[4] Employed persons with a job but not at work during the survey reference week are classified as full- or part-time workers according to whether they usually work 35 hours or more. This group averaged 5.8 million in 1985, and ranged from a low of 3.9 million in November to a high of 11.8 million in July.

[5] See Carol Leon and Robert W. Bednarzik, "A profile of women on part-time schedules," *Monthly Labor Review*, October 1978, pp. 3–12; and William V. Deutermann, Jr. and Scott Campbell Brown, "Voluntary part-time workers: a growing part of the labor force," *Monthly Labor Review*, June 1978, pp. 3–10. The latter article deals only with nonagricultural employment.

[6] In terms of the existing classifications, a count of the part-time employed would include voluntary part-timers, the part-timers for economic reasons who usually work part time, and persons with a job but not at work who usually work less than 35 hours a week.

[7] See Anne McDougall Young, "New monthly data series on school age youth," *Monthly Labor Review*, July 1985, pp. 49–50.

[8] Janice Neipert Hedges, "Job commitment in America: is it waxing or waning?" *Monthly Labor Review*, July 1983, pp. 17–24.

Tenements house some hard numbers

During the winter of 1914–15 the Committee on Unemployment formed by Mayor John P. Mitchell called upon the Bureau of Labor Statistics for a series of field surveys of unemployment in New York City. The committee had collected data from employers on the number employed in a week of December 1914 and for the corresponding week of December 1913. At about the same time, the Metropolitan Life Insurance Company, in cooperation with the Mayor's Committee, had surveyed its industrial policyholders in Greater New York. At the request of the committee, with personnel borrowed from the U.S. Immigration Bureau and the New York City Tenement House Inspection Service, the Bureau covered over 100 city blocks and some 3,700 individual tenement houses in January and February 1915. It found an unemployment rate of 16.2 percent, which approximated the 18-percent rate reported by Metropolitan. The results were published by the Bureau in *Unemployment in New York City, New York*.

[BLS Commissioner] Meeker then contracted with Metropolitan for studies in 16 cities in the East and Middle West and in 12 Rocky Mountain and Pacific Coast cities. In August and September 1915, at the urging of the Mayor's Committee, both the Bureau and Metropolitan conducted surveys in New York City for a second time. The results of this work were presented in 1916 in a Bureau publication, *Unemployment in the United States*.

—JOSEPH P. GOLDBERG AND WILLIAM T. MOYE
The First Hundred Years of the
Bureau of Labor Statistics
Bulletin 2235 (Bureau of Labor
Statistics, 1985).

Linking Employment Problems to Economic Status, 1984 Survey

U.S. Department of Labor
William E. Brock, Secretary

Bureau of Labor Statistics
Janet L. Norwood, Commissioner
September 1986

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Table 5. Persons with part-time employment by age, sex, race, Hispanic origin, and reason for working part time, 1984

(In thousands)

Characteristic	Total	Involuntary part time			Voluntary: Wanted or could only work part time	Other reasons
		Total	Slack work or material shortage	Could only find part-time work		
All persons with part-time employment						
Total	43,877	14,429	9,052	5,378	21,039	8,409
Age:						
16 to 19	7,106	1,490	512	978	4,824	791
20 to 24	8,110	3,133	1,640	1,494	3,605	1,372
25 to 54	22,306	8,409	5,858	2,551	8,777	5,120
55 to 64	3,761	1,134	850	284	1,806	821
65 and over	2,595	262	192	70	2,027	306
Men	19,204	7,954	5,611	2,343	6,616	4,635
Age:						
16 to 19	3,544	830	325	505	2,282	432
20 to 24	3,967	1,720	1,030	690	1,473	774
25 to 54	8,748	4,689	3,678	1,011	1,291	2,769
55 to 64	1,537	608	494	114	466	463
65 and over	1,408	107	84	23	1,104	197
Women	24,673	6,476	3,441	3,035	14,423	3,774
Age:						
16 to 19	3,562	660	187	473	2,543	359
20 to 24	4,142	1,413	610	803	2,131	597
25 to 54	13,558	3,721	2,180	1,540	7,486	2,351
55 to 64	2,224	526	356	170	1,340	357
65 and over	1,187	156	108	47	923	109
White						
Total	38,523	12,077	7,815	4,262	19,130	7,316
Age:						
16 to 19	6,327	1,261	471	790	4,365	701
20 to 24	7,009	2,593	1,410	1,183	3,194	1,221
25 to 54	19,514	7,015	5,007	2,008	8,102	4,397
55 to 64	3,346	978	751	227	1,636	732
65 and over	2,328	230	176	55	1,833	264
Men	16,749	6,734	4,909	1,826	5,944	4,071
Age:						
16 to 19	3,155	690	293	398	2,079	385
20 to 24	3,445	1,452	907	546	1,307	685
25 to 54	7,495	3,964	3,190	775	1,125	2,405
55 to 64	1,375	531	442	89	419	424
65 and over	1,280	96	78	18	1,012	172
Women	21,773	5,343	2,906	2,436	13,186	3,244
Age:						
15 to 19	3,171	571	178	392	2,285	316
20 to 24	3,564	1,141	504	637	1,887	536
25 to 54	12,019	3,050	1,817	1,233	6,977	1,992
55 to 64	1,972	447	309	138	1,217	308
65 and over	1,047	134	98	36	821	92

See footnotes at end of table.

Table 5. Persons with part-time employment by age, sex, race, Hispanic origin, and reason for working part time, 1984—Continued

(In thousands)

Characteristic	Total	Involuntary part time			Voluntary: Wanted or could only work part time	Other reasons
		Total	Slack work or material shortage	Could only find part-time work		
Black						
Total	4,344	2,016	1,047	969	1,399	930
Age						
16 to 19	624	211	35	177	338	74
20 to 24	885	477	196	281	288	120
25 to 54	2,256	1,172	718	453	459	625
55 to 64	344	129	83	46	141	74
65 and over	236	27	15	13	172	36
Men	1,992	1,042	592	449	497	454
Age						
16 to 19	309	130	29	101	143	36
20 to 24	401	228	97	131	109	64
25 to 54	1,041	611	416	195	127	303
55 to 64	133	65	45	20	40	28
65 and over	108	8	7	2	77	22
Women	2,352	974	454	519	902	476
Age						
16 to 19	314	82	6	76	195	38
20 to 24	484	248	99	149	179	56
25 to 54	1,215	561	303	258	332	322
55 to 64	211	64	38	25	101	46
65 and over	128	19	8	11	95	14
Hispanic origin						
Total	2,655	1,194	815	379	955	505
Age						
16 to 19	426	111	55	56	255	60
20 to 24	587	279	176	102	218	90
25 to 54	1,425	728	533	195	388	309
55 to 64	161	67	45	22	52	41
65 and over	56	10	6	3	42	5
Men	1,365	767	571	197	315	283
Age						
16 to 19	216	67	39	28	120	29
20 to 24	348	200	136	64	99	49
25 to 54	694	454	363	91	62	178
55 to 64	75	41	30	11	9	25
65 and over	32	5	2	3	25	2
Women	1,290	427	245	182	640	222
Age						
16 to 19	211	44	17	28	135	31
20 to 24	239	78	40	38	119	41
25 to 54	731	274	169	104	326	131
55 to 64	86	26	15	11	43	16
65 and over	24	5	4	1	17	2

Table 6. Persons with part-time employment by family status, race, Hispanic origin, and reason for working part time, 1984

(In thousands)

Characteristic	Total	Involuntary part time			Voluntary: Wanted or could only work part time	Other reasons
		Total	Slack work or material shortage	Could only find part-time work		
All persons with part-time employment						
Total	43,877	14,429	9,052	5,378	21,039	8,409
Husbands	8,242	3,658	3,054	604	2,026	2,558
Wives	13,332	3,039	1,831	1,207	8,342	1,951
Others in married-couple families	9,034	2,382	1,011	1,371	5,547	1,105
Women who maintain families	2,188	920	516	405	789	479
Others in families maintained by women	3,177	1,300	551	749	1,419	458
Men who maintain families	438	219	179	40	80	139
Others in families maintained by men	712	315	187	128	272	125
All other men[1]	3,533	1,565	1,141	423	1,037	932
All other women[1]	3,221	1,032	581	451	1,527	662
White						
Total	38,523	12,077	7,815	4,262	19,130	7,316
Husbands	7,478	3,277	2,759	518	1,883	2,318
Wives	12,347	2,691	1,634	1,057	7,879	1,778
Others in married-couple families	8,077	2,051	902	1,150	5,050	975
Women who maintain families	1,549	609	363	246	626	314
Others in families maintained by women	2,333	862	386	475	1,128	344
Men who maintain families	342	154	125	29	73	115
Others in families maintained by men	601	249	156	93	241	111
All other men[1]	2,958	1,288	978	310	883	787
All other women[1]	2,838	897	512	384	1,368	574
Black						
Total	4,344	2,016	1,047	969	1,399	930
Husbands	602	305	247	58	114	184
Wives	701	269	149	120	290	142
Others in married-couple families	706	280	93	187	322	105
Women who maintain families	610	293	151	142	158	159
Others in families maintained by women	791	425	156	269	254	113
Men who maintain families	85	56	46	10	7	21
Others in families maintained by men	80	50	23	27	17	13
All other men[1]	459	234	132	102	113	112
All other women[1]	310	104	50	54	125	80
Hispanic origin						
Total	2,655	1,194	815	379	955	505
Husbands	551	340	283	57	64	147
Wives	677	219	134	85	341	117
Others in married-couple families	558	196	105	91	286	76
Women who maintain families	157	77	49	29	46	33
Others in families maintained by women	203	86	46	40	98	19
Men who maintain families	47	28	22	6	9	10
Others in families maintained by men	98	61	47	15	20	17
All other men[1]	242	141	103	38	48	54
All other women[1]	121	45	27	18	43	33

[1] Includes a small number of members of unrelated subfamilies.

Table 7. Persons with involuntary part-time employment by reason, family status, race, Hispanic origin, and weeks of involuntary part-time employment, 1984

(In thousands)

Characteristic	Total	1 to 4 weeks	5 to 14 weeks	15 to 26 weeks	27 weeks or more
All persons					
Total with involuntary part-time employment	14,429	4,416	4,687	2,664	2,663
Husbands	3,658	1,407	1,229	673	349
Wives	3,039	881	866	554	737
Others in married-couple families	2,382	615	817	482	467
Women who maintain families	920	236	270	166	249
Others in families maintained by women	1,300	312	421	274	293
Men who maintain families	219	65	84	48	23
Others in families maintained by men	315	85	118	56	57
All other men[1]	1,565	542	589	243	191
All other women[1]	1,032	272	294	169	297
Total with slack work	9,052	3,648	3,084	1,446	874
Husbands	3,054	1,286	1,064	522	182
Wives	1,831	718	567	286	260
Others in married-couple families	1,011	400	354	168	89
Women who maintain families	516	196	176	77	67
Others in families maintained by women	551	229	164	104	54
Men who maintain families	179	61	71	35	12
Others in families maintained by men	187	67	77	22	22
All other men[1]	1,141	466	430	159	87
All other women[1]	581	226	180	74	101
Total who could only find part-time work	5,378	767	1,603	1,218	1,789
Husbands	604	121	165	151	167
Wives	1,207	163	299	268	477
Others in married-couple families	1,371	215	462	315	378
Women who maintain families	405	41	94	88	182
Others in families maintained by women	749	83	257	170	240
Men who maintain families	40	4	12	13	11
Others in families maintained by men	128	18	41	34	35
All other men[1]	423	76	159	84	105
All other women[1]	451	47	113	95	195
White					
Total with involuntary part-time employment	12,077	3,779	3,981	2,236	2,081
Husbands	3,277	1,269	1,103	618	287
Wives	2,691	777	773	489	651
Others in married-couple families	2,051	556	722	408	366
Women who maintain families	609	164	189	108	149
Others in families maintained by women	862	210	266	192	193
Men who maintain families	154	47	56	30	20
Others in families maintained by men	249	64	96	45	43
All other men[1]	1,288	451	504	188	145
All other women[1]	897	241	272	157	227
Total with slack work	7,815	3,162	2,677	1,269	706
Husbands	2,759	1,157	961	480	161
Wives	1,634	636	505	264	229
Others in married-couple families	902	372	316	147	67
Women who maintain families	363	136	133	55	39
Others in families maintained by women	386	166	104	80	36
Men who maintain families	125	44	47	23	10
Others in families maintained by men	156	55	67	17	17
All other men[1]	978	393	379	132	73
All other women[1]	512	204	165	71	72
Total who could only find part-time work	4,262	617	1,304	966	1,374
Husbands	518	112	142	138	126
Wives	1,057	141	268	225	422
Others in married-couple families	1,150	184	406	261	298
Women who maintain families	246	28	56	53	110
Others in families maintained by women	475	44	162	113	156
Men who maintain families	29	4	9	6	10
Others in families maintained by men	93	9	30	28	26
All other men[1]	310	58	124	56	72
All other women[1]	384	38	106	86	154

See footnotes at end of table.

Table 7. Persons with involuntary part-time employment by reason, family status, race, Hispanic origin, and weeks of involuntary part-time employment, 1984—Continued

(In thousands)

Characteristic	Total	1 to 4 weeks	5 to 14 weeks	15 to 26 weeks	27 weeks or more
Black					
Total with involuntary part-time employment	2,016	528	615	375	497
Husbands	305	113	107	45	40
Wives	269	76	76	56	61
Others in married-couple families	280	52	75	66	86
Women who maintain families	293	70	78	51	94
Others in families maintained by women	425	94	151	81	99
Men who maintain families	56	14	23	16	3
Others in families maintained by men	50	15	16	6	13
All other men[1]	234	72	73	47	42
All other women[1]	104	21	15	8	60
Total with slack work	1,047	404	344	154	145
Husbands	247	105	90	34	18
Wives	149	60	51	17	21
Others in married-couple families	93	26	28	18	21
Women who maintain families	151	59	41	23	28
Others in families maintained by women	156	58	58	24	17
Men who maintain families	46	14	20	10	2
Others in families maintained by men	23	9	5	4	-
All other men[1]	132	56	42	22	12
All other women[1]	50	17	8	1	24
Total who could only find part-time work	969	124	271	222	352
Husbands	58	8	17	11	22
Wives	120	16	25	38	40
Others in married-couple families	187	26	47	48	66
Women who maintain families	142	12	36	28	66
Others in families maintained by women	269	37	93	56	82
Men who maintain families	10	-	3	7	1
Others in families maintained by men	27	6	11	1	9
All other men[1]	102	16	31	25	30
All other women[1]	54	4	7	7	36
Hispanic origin					
Total with involuntary part-time employment	1,194	375	369	233	217
Husbands	340	122	116	62	40
Wives	219	60	56	53	50
Others in married-couple families	196	57	68	35	36
Women who maintain families	77	27	16	10	24
Others in families maintained by women	86	21	20	15	31
Men who maintain families	28	12	7	5	4
Others in families maintained by men	61	16	20	21	5
All other men[1]	141	47	51	28	15
All other women[1]	45	13	16	4	13
Total with slack work	815	319	280	127	89
Husbands	283	104	102	47	30
Wives	134	49	41	25	19
Others in married-couple families	105	47	34	18	7
Women who maintain families	49	22	12	6	9
Others in families maintained by women	46	19	14	5	9
Men who maintain families	22	11	7	2	2
Others in families maintained by men	47	15	19	11	2
All other men[1]	103	43	41	12	7
All other women[1]	27	9	11	2	5
Total who could only find part-time work	379	56	89	106	128
Husbands	57	18	14	16	10
Wives	85	11	15	28	31
Others in married-couple families	91	11	34	17	30
Women who maintain families	29	5	4	4	15
Others in families maintained by women	40	2	6	10	22
Men who maintain families	6	1	-	3	2
Others in families maintained by men	15	1	-	10	3
All other men[1]	38	4	10	16	8
All other women[1]	18	3	5	2	8

[1] Includes a small number of members of unrelated subfamilies.

NOTE: Dash represents zero or rounds to zero.

Table 8. Percent of persons with part-time employment below the poverty level by family status, race, Hispanic origin, and reason for working part time, 1984

Characteristic	Total	Involuntary part time			Voluntary: Wanted or could only work part time	Other reasons
		Total	Slack work or material shortage	Could only find part-time work		
All persons with part-time employment						
Total below poverty level	12.4	17.7	13.4	25.0	9.2	11.2
Husbands	11.1	14.4	11.8	27.7	6.4	10.1
Wives	5.7	9.2	5.4	14.9	4.5	5.2
Others in married-couple families	4.4	6.3	5.5	7.0	3.3	5.8
Women who maintain families	38.4	44.7	34.6	57.6	37.3	27.8
Others in families maintained by women	17.3	21.8	12.9	28.3	14.4	13.5
Men who maintain families	19.8	23.1	19.8	(1)	13.1	18.5
Others in families maintained by men	7.6	9.6	6.9	13.6	7.2	3.5
All other men[2]	26.9	31.9	24.0	53.0	29.7	15.6
All other women[2]	27.7	31.9	22.7	43.9	26.8	23.0
White						
Total below poverty level	10.6	15.0	11.7	21.0	8.1	10.0
Husbands	10.2	13.0	10.8	24.6	6.1	9.8
Wives	5.3	8.8	5.3	14.1	4.4	4.5
Others in married-couple families	3.8	4.9	4.3	5.4	3.0	5.2
Women who maintain families	31.7	36.5	28.3	48.5	32.3	21.3
Others in families maintained by women	11.5	14.9	10.8	18.2	9.6	9.6
Men who maintain families	18.7	25.1	21.9	(1)	(1)	14.0
Others in families maintained by men	6.6	8.3	5.0	13.7	7.3	1.5
All other men[2]	24.5	27.8	21.6	47.4	27.7	15.5
All other women[2]	27.2	32.0	20.7	47.0	25.6	23.3
Black						
Total below poverty level	26.7	32.5	25.0	40.7	23.4	19.1
Husbands	18.3	25.4	21.8	(1)	10.9	11.2
Wives	10.7	13.6	7.3	21.5	8.5	9.4
Others in married-couple families	11.0	16.3	18.0	15.4	6.6	10.7
Women who maintain families	54.2	60.8	50.4	71.8	56.8	39.4
Others in families maintained by women	33.3	35.3	17.4	45.7	33.9	24.9
Men who maintain families	24.1	(1)	(1)	(1)	(1)	(1)
Others in families maintained by men	11.1	(1)	(1)	(1)	(1)	(1)
All other men[2]	39.5	51.9	38.9	68.8	38.9	14.0
All other women[2]	30.1	28.9	(1)	(1)	38.7	18.4
Hispanic origin						
Total below poverty level	20.6	26.7	22.4	35.9	14.6	17.3
Husbands	23.1	27.1	23.5	(1)	(1)	16.1
Wives	10.6	17.1	12.5	24.3	7.0	9.1
Others in married-couple families	9.0	14.1	9.6	19.4	6.2	6.2
Women who maintain families	45.7	50.4	(1)	(1)	(1)	(1)
Others in families maintained by women	24.8	22.3	(1)	(1)	27.3	(1)
Men who maintain families	(1)	(1)	(1)	(1)	(1)	(1)
Others in families maintained by men	11.2	(1)	(1)	(1)	(1)	(1)
All other men[2]	43.1	50.5	44.6	(1)	(1)	(1)
All other women[2]	38.2	(1)	(1)	(1)	(1)	(1)

[1] Data not shown where base is less than 75,000.

[2] Includes a small number of members of unrelated subfamilies.

Mr. WHEAT. I am a little bit taken aback by the calmness with which we approach this subject, and merely saying that income inequality has not dramatically changed in the last 10 or 15 years. I think all of you would agree that the clear trend up until that time of at least our society trying to improve income equality has just ended, that it stopped completely, and there is no trend toward evening out distribution of income within our society. If that were the question we were looking at today, whether poor people were doing better, whether the middle class was growing, then the interpretation we might be putting on these statistics would be a little bit more alarming.

Thank you very much for appearing today.

Chairman MILLER. Congressman Sawyer.

Mr. SAWYER. Thank you.

One of the concerns that I get when I hear you talk about the way in which dollars that are available to families are being spent, the way in which we see increased portions of available income being spent on things that we would think of either as necessities or in terms of servicing personal debt, the capacity of a family to support the next generation, the intergenerational transfer of that value that we build in families, has got to be declining at an incredibly fast rate.

I haven't heard you talk about that, but the implications that that has, it seems to me, for education, the capacity to invest either in the cost of higher education or in the institutional, societal costs of sustaining public education, have got to be not only diminishing but diminishing our capacity to work our way out of the cycle that we appear to have entered, at least in the traditional terms.

Have you done any work with regard to the way in which we are investing in those traditional ways that we have had to work our way out of the kind of economic problems that you describe? Did that make any sense?

Mr. LEVY. Go ahead.

Mr. BARTLETT. I was waiting for you.

Mr. LEVY. It does make sense.

Mr. SAWYER. I thought I had just been talking a different language.

Mr. LEVY. No. No, you haven't been talking a different language. It does make sense. I am on leave this year, and one of the things I am trying to make some sense of is that. One thing that you know, looking over the last 10 or 12 years, is that if, for example, we focus on the incomes of 30-year-old men, that the impact of college on earnings has gone way up over the last 12 years.

Back in the early 1970's, people were writing books about the fact that we had a glut of college-educated workers and college was a bad investment because a 30-year-old guy with college didn't earn that much more than a 30-year-old guy who had a high school diploma. That has totally reversed, and there is a big gap there.

What I don't have a very good understanding of is what has happened to the cost of education, and so I can't answer your question in terms of what that means in terms of college going and so on.

Mr. SAWYER. Is that an important question—perhaps refine it a little bit—an important question to continue to ask?

Mr. LEVY. Sure, it is an important question.

Ms. SCHOEN. From our experience with service employees and as we are a unionized group of service workers, you can't go to any group in the private sector who feels either better off than they were and not hear story after story of that basic inability to invest in themselves that you have been talking about, that they don't feel they can send their kids to college; the loans aren't available that used to be available to them; and more of them are renters. They really mirror the kind of image that was put out by the chairman at the beginning.

Many of them are working at jobs where they have seen an absolute decline in pay and benefits. It hasn't been just a freeze. So they tell you a job history that, instead of being better off, they are working more, they have got seniority, but they are lower down in the stream.

I know the bigger studies haven't been done, but we have got a group of unionized workers at the $7, $8, and $5 range who tell exactly that kind of story: What does it matter for the next generation? It doesn't look good in terms of where they think their children are going to go.

Mr. SAWYER. I'm speaking not only of college investment, the out-of-pocket kind of investment that a family invests directly, I'm talking in terms of the way in which we measure the amount of family income that is devoted to the support of public institutions of education through tax payments and other means of support, whether it be public education or the investment that families choose to make in private elementary and secondary schools.

The studies that need to be done about the trend lines in the amount of investment of available income, it seems to me, are critically important to whether or not we have the capacity to recover from the phenomena that you are describing.

Thank you, Mr. Chairman.

Chairman MILLER. Thank you.

Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

I want to revisit this question of whether or not to raise the minimum wage. Although I came in at the end of this discussion, I would gather, Mr. Bartlett, that you and Ms. Schoen are on opposite sides of that question. As it happens, I serve on the Education and Labor subcommittee that is going to address that question in the near future.

The option that is being presented now in committee is roughly along these lines: some sort of increase for the minimum wage offset by some sort of subminimum wage. In other words, if you raise the minimum wage, perhaps maintaining a minimum wage at the present level or a little bit higher for youth and entry level positions, part-time, summer employees, things of that nature, and, of course, not having what is presently being offered, which is an indexing of the minimum wage. In other words, as the cost of living goes up minimum wage goes up. What is your general feeling about that option?

Ms. SCHOEN. We have always been against what I would call a subminimum, although we feel like we have had a subminimum for the last five years, mainly because of the substitution effect of a pitting of young people against adult workers that goes on even if you try to police it.

Since you missed what I said earlier, we don't feel that there will be phenomenal displacement with a raising of the minimum wage. In fact, other countries' experience and our own experience hasn't shown that. If anything, you are starting to get the Fortune magazines and the Wall Street Journals' of the world saying that perhaps our wages have been too low at the bottom so our work force is so cheap that there is no incentive to innovate any more. What you see going on in a Germany or a Sweden is an attempt to really creatively use workers, and as long as they are extremely cheap you can have more workers with less of a sort of creative, productive work force in it.

So there is some suggestion that you get an overall economic growth out of raising your floor, and the concern about the youth subminimum, other countries have gotten away with that, not gone that route at all, because they have seen that they really need to have jobs that give youths opportunities as well.

Mr. GRANDY. By the way, do you subscribe to the theory that the minimum wage bumps up the entire wage sector?

Ms. SCHOEN. It depends on where the minimum wage job is. In some yes, and some, no.

Mr. GRANDY. How do you feel about the indexing provision that is currently attached to the minimum wage legislation?

Ms. SCHOEN. It is essential so that we don't have to do this year after year. It should keep going up with inflation. Otherwise, we find ourselves, as we do now, with, no one made a decision, but it went down.

Mr. GRANDY. Mr. Bartlett, would you care to comment?

Mr. BARTLETT. I'm basically opposed to the minimum wage. I don't think it ought to exist at all. I think the people ought to be able to make whatever arrangements they want to be able to work.

We always think of it from the employer's point of view, but what about from the employee's? What if you have somebody who wants to work and is willing to work for $2 an hour? You are saying, "You can't take this job; it's against the law for you to take that job." So I think, as the New York Times recently editorialized, the correct minimum wage should be zero.

But, barring that, I think we certainly ought not to increase the current minimum wage, and I think that the indexing would be terrible because it would undo the benefit that we get from inflation in terms of reducing the real value of the minimum wage. So it goes completely against everything I believe, and I don't know how I can be any clearer than that.

Mr. GRANDY. Dr. Levy, would you care to mediate this dispute? This is pretty much where we came in.

Mr. LEVY. Sure. I will be glad to. The only thing I can speak to is indexing, and I can give you three or four examples that I have studied in some detail, all of which suggest that indexing is just a very bad idea, because you can't tell what the future is going to be.

I mean if we go through another oil price shock where the cost of living goes up by 12 percent and most employers end up giving 6 percent cost-of-living increases, so that you have a 6 percent fall in real wages but you are locked into increasing the minimum wage by 12 percent, that is bound to have——

Mr. MORRISON. But that is not the proposal.

Mr. LEVY. Then what is the proposal? Indexing to what then?

Mr. MORRISON. The median.

Mr. LEVY. That is a different story. All right. Let me back up from that then. All right. Then I withdraw my remarks.

Mr. GRANDY. Did you want to comment, Mr. Wheat?

I yield to the gentleman from Missouri.

Mr. WHEAT. I did want to make a comment that the indexing was to the wage rate.

If you are finished with your remark——

Mr. LEVY. I am.

Mr. WHEAT [continuing]. Then I wanted to go back to the point that Mr. Bartlett had just raised about the effect of wage rates and the unemployment rate.

I take it that what you are suggesting is, if people are willing to work for the wage rate sort of in the classical, traditional, economic theory as outlined by Adam Smith at the current wage rate, then raising the wage rate actually produces a disincentive for the creation of jobs within our society.

Mr. BARTLETT. Of course.

Mr. WHEAT. I would take it you would also subscribe to Mr. Smith's theory that what is really needed in times of high unemployment to produce more jobs would be a lowering of a wage rate, so that you would recommend that instead of raising the minimum wage we either lower it or eliminate it.

Mr. BARTLETT. If the price of peanut butter at the store goes up, people buy less peanut butter. If you raise the cost to employers of buying labor inputs, they are going to buy fewer labor inputs. I think the law of supply and demand works in the labor market as in all other markets.

Mr. WHEAT. As I also remember, Mr. Smith's theory was basically wage rates could be lowered to the point, down to a subsistence level, so that workers would be receiving the bare minimum of what they needed to sustain themselves to be able to continue working, and that would be the bottom line for how low wage rates could go.

Mr. BARTLETT. I think that is Karl Marx's iron theory of wages, I don't think that is in Adam Smith's.

Mr. WHEAT. What would be the bottom line then for wage rates?

Mr. BARTLETT. I don't know. What is the bottom line for the price of peanut butter? It is set by supply and demand. I don't know what wage rates would be in the absence of the minimum wage. I don't think there would be any impact to speak of, in general, throughout the economy, and I don't think there would be any impact really on family incomes either, because there isn't a very close relationship between wage rates and family income. People have charted this relationship, and they just can't find it.

Mr. GRANDY. Mr. Chairman, I will yield back and let somebody else stir the pot for a while.

Chairman MILLER. Well, we have one waiting.

Mr. Morrison.

Mr. MORRISON. I would just like to follow on with this discussion a little bit. Is the bottom line of your position the same as the New York Times', which is that it is really preferable to have a zero minimum wage and then let the Government provide the subsidy for people to receive enough money in order to pay the price that it costs to live in a modern industrialized society?

Mr. BARTLETT. I am not necessarily endorsing wage subsidies, but I think the important thing is that——

Mr. MORRISON. That is what the New York Times said.

Mr. BARTLETT. Yes, I know. I know that is what they said. But I would agree with them this far. I think that if you want to do something to deal with a perceived problem of too low a pay for some workers, you don't want to interfere with the price mechanism. I think you ought to allow workers and employers to develop whatever wage rate would exist in the free market and, if necessary, make up the difference through a subsidy, but you can't legislate increases in wage rates. I don't think that that works.

Mr. MORRISON. Let us just back up here. It seems to me that you have to choose here whether or not you think in one way or another the public sector has to assure a certain level of income or not. You can't say, "Well, I'll let the wage rate flow with respect to a market, and if it goes down to a dollar an hour for a lot of workers or some workers, so be it, especially with the low wage pressure from outside the country, but I really don't want to endorse subsidies." I think you have to choose, because then you are going to say that it is okay if people have to live on $2,000 a year in the United States. Which is it? Where are you?

Mr. BARTLETT. All I was saying is that I think that wage subsidies would be a less bad way of dealing with this problem than raising minimum wage.

Mr. MORRISON. What is the best way?

Mr. BARTLETT. I don't know. I believe in the free market, and I think things ought to work themselves out in the market. But I think that the minimum wage is a particularly bad way to try to raise incomes of low-income people.

Mr. MORRISON. So in other words, when you say "free market," you don't think the Government should intervene to assure a level of income at all.

Mr. BARTLETT. No, I don't.

Mr. MORRISON. In other words, wherever the market takes people's income, that is acceptable to you.

Mr. BARTLETT. Yes.

Mr. MORRISON. And that is what you prefer. So you really don't agree with the New York Times, because they are basically just answering the question as between putting the subsidy in the price, if you will, the subsidy of maintaining a certain level, and putting the subsidy into the tax base. They prefer the tax base. You prefer neither.

Mr. BARTLETT. I was agreeing with the headline.

Mr. MORRISON. I think it is important that when you cite something we understand what you are citing.

I would yield back the balance of my time.

Chairman MILLER. Ms. Schoen, let me ask you about this discussion of the quality of service jobs and new jobs and whether or not they really are the same quality as what we recognize is talked about in terms of high-paying manufacturing jobs, in many instances unionized jobs. What is the comparison?

The one thing that seems to emerge when I read the literature is that while wages, to some extent, seem to be creeping up in the service sector, the package of benefits is, in fact, not doing that, so people are paying out of pocket for health care, child care, what-have-you. Is that accurate?

Ms. SCHOEN. Yes, that is accurate. If you look at the most recent surveys on benefits, whether it is pension benefits, holiday benefits, or health insurance, it is striking what is happening. As has been the trend in services over time, but especially right now, you have got over 20 or 25 percent of the people working in large industries, like retail and the other services category, with no coverage whatsoever at the job.

But I just want to make the point that we don't see it as the new jobs or the job mix, per se, as the problem. I think this is going on across all jobs, and the kinds of trends I outlined certainly started at the lowest end, the janitor's job that was subcontracted out of a GM or Ford Motors suddenly going from $12 an hour down to $3.35. That is going on, the closing of one job that was high wage and opening of another job, but across all jobs we are really seeing this tendency towards no benefits and lower wages. So it is going up the job hierarchy, and the jobs are very often higher-skilled jobs. So when we talk about good job/bad job, a registered nurse, a licensed practical nurse, is not a low-skilled job. It requires high levels of education, but it is a low-paid job, and it is becoming a lower-paid job.

You asked about the differential. One of the things that has been happening with the differential is, manufacturing wages have failed to increase, so there is a lot of talk about services catching up. We see it as manufacturing coming down. So services right now are roughly $7/$7.50 an hour, hourly wage, but many of those jobs aren't full-year and they don't have benefits. So the comparison, until you get all the facts in, is difficult to make from just raw statistics.

Chairman MILLER. I guess it is the trend if that information is accurate. It seems to me that you are establishing a trend where it appears, from the lay person's point of view, that it is going to become more and more difficult for families—whether they are single-earner families, single-parent families, or whatever the makeup of those families—to have the wherewithal to participate in what we believe is mainstream, middle-class America. I don't know if that is an accurate picture, but I don't see the event on the horizon that throws a windfall into this process where, all of a sudden, we have a correcting process.

I guess in terms of numbers it is not big, but in terms of ramifications, the entry of three or four million children into poverty, when we know how poverty becomes a predictor of where you are going—I am asking what is the trend? It seems to me that it is somewhat accurate, as you point out, to define the middle class according to their expectations about what they are going to be able to purchase or achieve, however we measure that across society. If you spend more out of pocket for your health care, more out of pocket for child care just so you can maintain that job, pretty soon it seems to me that that is not what the expectation is of full-time employment of this generation.

Mr. LEVY. I would agree.

Chairman MILLER. That is pretty dismal.

Mr. LEVY. Well, I think we have been through a very rough 12- or 13-year period. We may begin to be pulling out of it now. It is not clear to me that we are. But you are right. A lot of what you see now in terms of two-tiered contracts and specific benefit reductions really went on in the 1970's in a much more quiet way, because you just didn't let wages keep up with inflation, and so real incomes were being lowered in that way. Once inflation stops, the process of lowering incomes becomes much more visible. You can't just let prices go up and chop your costs. But it has been a rough time.

This is not a political issue, this is extended over three or four Presidents we are talking about right now. The way we have done with it is, the bottom has gotten chopped hardest. The sacrifice has not been equally distributed. Younger workers, less educated workers, single-parent families have taken it more than other groups in the economy. But it has affected everybody, and unless we can return to some regime where output per worker is rising and living standards are rising, which really was what the first 20 years of the postwar period was all about, we are going to be in trouble; there is no doubt about that.

Chairman MILLER. So what is your definition of "trouble" here?

Mr. LEVY. A lot more conflict back and forth about who is going to get what piece of the pie that is not growing very fast and a lot more people saying, "Get out of my way; I'm trying to get mine; to heck with you." We have seen some of that; we will see more of that.

Chairman MILLER. You give some credence to the notion of generational conflicts.

Mr. LEVY. Generational conflicts, but also conflicts between management—much more between management and labor, between regions of the country. We really used rising incomes as a kind of great lubricant to smooth out all kinds of social conflicts in the first 26 years of this period after World War II.

This issue about income and equality, I would say that the chief thing that stands out about those numbers is that the income distribution has always been very unequal in this economy and that those variations don't mean much, and we had this kind of bargain in the social compact where you had rapid increases in living standards, and that is what it was about. There wasn't great equality at any point in time, but you were getting better and I was getting better and everybody was getting better. Once that starts to really slow down and once we run out of these demographic and debt gimmicks to keep consumption growing as if it hadn't slowed down, then you get into real problems, and a lot of these conflicts come to the surface, sure.

Chairman MILLER. Let me just ask you on one issue. It is a casual question, not hanging your reputation on the answer, but it would seem to me then in terms of——

Mr. LEVY. I will give you a casual answer.

Chairman **Miller**. In terms of policy, rather than hang on to the notion that I might get women back into the home to take care of the children that they have chosen to have as a family, I had better think about a major investment in child care, because it is more likely, given this trend line and our expectations that they are going to remain in the work force, and like it or not or agree or disagree, some accommodation is going to have to take place to allow them in the work force.

Now it can be your accommodation that says they kind of make do the best they can, as you suggested, or it could be the accommodation of the person running the Massachusetts ET Program who says, "Without child care, this program wouldn't work at all." But it seems to me, just in terms of the policy decisions of the impact on families, this trend starts to make you confront some serious national policy choices with respect to support systems for families. We are confronting one in the next few weeks in catastrophic health care. That says something about the ability of people to reach into their pockets, certainly about one segment of our population. But these things seem to be rushing at us and are going to start to accelerate at the time in which we are going to have to make these choices.

Mr. **Levy**. Let me give you an answer on which my reputation won't ride. My guess is that if we went back to a world where wages were growing as fast as they had in the 1950's and 1960's and early 1970's, relatively few women would go back to take care of their kids, that as much of the trend in women's labor force participation has to do with psychological dimensions and desire for career as it does for economic necessity, and that whatever the original reasons why a particular woman went into the labor force, it is my gut reaction, just from looking at some poll data and stuff, that many would be very averse to going back.

When I raise these issues, people accuse me of being a fascist pig for suggesting that a lot of the input was for economic necessity, and I guess I have come to the view that a lot of it is just things that won't be reversed.

Chairman **Miller**. I don't know. When I talk to women with children, I would say there is some mitigation of that answer. I certainly engage in conversations with a significant number of women who express the notion that they would like to be out of this work force and be with their children, but that is just not a real choice any longer. Again, the makeup of the family obviously dictates that to some extent, but even in those where the spouses are working just to hold that debt service and everything else together.

Mr. **Levy**. Let me just ask a question on that. I have heard that response from women when kids are one, and two, and three. But what about when the children go into school? What about when they are in kindergarten? Do you still get that response?

Chairman **Miller**. Well, when they are 18, nobody wants to be around them.

Mr. **Levy**. No. I understand that.

Chairman **Miller**. Sorry to all you 18-year-olds, registered and unregistered.

Mr. **Levy**. There are not so many of them any more.

Chairman **Miller**. They don't register in that great a number.

Are there any further questions?

Thank you very much for your testimony and for your help this morning.

The next panel will be made up of Dr. Sandra Hofferth, who is a health scientist administrator for the National Institute of Child Health and Human Development from Bethesda; Dr. Carol Frances, from Carol Frances and Associates in Washington, D.C.; Dr. Phillip Clay, who is a professor of city planning, Department of Urban Studies and Planning, Massachusetts Institute of Technology in Cambridge; Dr. Deborah Chollet, who is a senior research associate for the Employee Benefits Research Institute in Washington; and Dr. Allan Carlson, who is the president of the Rockford Institute in Rockford, Illinois.

Welcome to the committee, and we will take you in the order in which you are listed. To the extent to which you can summarize—as you can see, this testimony is raising a fair number of questions—it would be appreciated, and also, to the extent you wish to comment on something that was said in the previous panel, it would also be appreciated.

Dr. Hofferth.

STATEMENT OF SANDRA L. HOFFERTH, PH.D., HEALTH SCIENTIST ADMINISTRATOR, DEMOGRAPHIC AND BEHAVIORAL SCIENCES BRANCH, CENTER FOR POPULATION RESEARCH, NATIONAL INSTITUTE OF CHILD HEALTH AND HUMAN DEVELOPMENT, NATIONAL INSTITUTES OF HEALTH, BETHESDA, MD

Ms. HOFFERTH. Thank you, Mr. Chairman and members of the Select Committee.

I am Dr. Sandra Hofferth of the Center for Population Research, the National Institute of Child Health and Human Development. My program focuses primarily on fertility. However, as you know and have talked about today, families often find that many important decisions are intertwined. For example, the decision about having children is closely tied to decisions about working and caring for them. Therefore, we have supported the collection and analysis of data on child care use including trends in use and expenditure patterns.

I will first spend a short time talking about recent trends in demand for and supply of child care. Over the next decade, we expect the number of children with employed mothers to continue to increase. This is because of an increase in the number of children, which is an echo of the Baby Boom and because of an increase in the proportion with mothers in the labor force.

By 1995, of the expected 45 million school-age children 6 to 17, three-quarters are projected to have a mother in the labor force. Of the expected 23 million children under 6, two-thirds are projected to have a mother in the labor force.

Between 1965 and 1985, there were tremendous changes in care arrangements for the preschool children of employed mothers. There was a gradual decline in care by a relative, a decline in care by a nonrelative in a child's home, or sitter care, a modest rise in care in a family day care home, and an enormous increase in care in a day care center or nursery school. In 1985, one-fifth of children under 5 with employed mothers were in a day care center or nursery school as a primary arrangement.

School-age children are primarily cared for by parents. If parents cannot arrange to care for the child themselves, the most common form of care is by a relative, with a family day care home next most widely used.

The number of day care centers and their capacity apparently doubled over the last decade, which is consistent with the increased use of center care. The number of licensed day care homes grew by one-third over the same period.

Now I would like to turn your attention to trends in the cost of care between 1975 and 1985. In 1985, the average dollar cost of child care among those who pay for care and for all children in a family was $37 per week. Expenditures ranged from $35 for those who paid a relative to $39 for those who paid a day care home provider.

How does this compare with data from 1975? When we adjust expenditures over time to changes in the Consumer Price Index, we see that in fact real expenditures in day care center care have not risen at all, and those in day care home care have risen only slightly, whereas expenditures for relative and sitter care have risen quite a lot.

Of course, weekly payment depends both on the hours of care and on the hourly cost. In 1985, mothers who were employed and who paid for care paid between about $1 and $1.50 per hour for care. Care by a sitter in the child's home was most expensive, with center care next, day care home third, and relative care least costly.

In real terms, the hourly cost of relative care and sitter care rose 40 percent between 1975 and 1985, whereas the cost of day care home and center care rose 7 and 15 percent, respectively.

How significant are these expenditures, and how do families differ in expenditures on child care? Although $37 may not seem like a lot, it turns out to be an important proportion of family income, and these are young families with young children. In 1985, families with children and who paid for child care spent 10 percent of their incomes for such care.

Level of income is an important factor associated with both what families pay and how big a bite it takes. The poor pay a smaller total amount for child care than those who are not poor, but they pay a larger proportion of their incomes. For example, mothers pay 9 percent of their income on child care if they are not poor, but they pay 23 percent if they are poor. The younger the child, the more spent on child care, and the larger this is as a proportion of their total income. One-parent families pay about the same amount for child care as two-parent families, but they spend a higher proportion of their family income.

Family size makes less difference than one might guess. Apparently, families adjust their hours and their expenditures on all forms of care for all children, so the total amount spent does not vary a lot by the number of children. Of course, the cost of some forms of care does not vary a lot by the number of children, and larger families may choose those forms.

Race makes some difference in what families pay. Black families generally pay less for care even after controlling for income level, but they do not pay a smaller proportion of their incomes.

Let me just wrap up my discussion. There is no evidence that child care is going to disappear as a concern for at least the next decade. Demographic trends point to continued growth in the number of children with employed mothers over the period. Trends to watch are the increased use of center care and family day care for infants and toddlers and the increased demand for after-school care for younger school-age children.

Consistent with data regarding increased use, but still surprising, the cost of day care center and family day care have stayed constant or increased only slightly in real terms over the past decade, whereas the cost of care by a relative or a sitter has increased greatly. Day care homes and centers look attractive in comparison.

Finally, among those who pay for care, child care expenditures constitute a substantial proportion of the total weekly income of American families who pay for care, approximately 10 percent of all families but as high as 20 to 26 percent among poor families.

While 10 percent is a substantial proportion of a family's income, comparable to expenditures on food, 20 to 25 percent constitutes a major expenditure item in the family budget, comparable to that of housing.

That concludes my statement. Thank you.

[Prepared statement of Sandra L. Hofferth follows:]

PREPARED STATEMENT OF SANDRA L. HOFFERTH, PH.D., HEALTH SCIENTIST ADMINISTRATOR, DEMOGRAPHIC AND BEHAVIORAL SCIENCES BRANCH, CENTER FOR POPULATION RESEARCH, NATIONAL INSTITUTE OF CHILD HEALTH AND HUMAN DEVELOPMENT, NATIONAL INSTITUTES OF HEALTH, BETHESDA, MD

Mr. Chairman and Members of the Select Committee:

I am Dr. Sandra Hofferth, Health Scientist Administrator in the Demographic and Behavioral Sciences Branch, Center for Population Research, National Institute of Child Health and Human Development, National Institutes of Health.

I appreciate this opportunity to testify about child care before the Select Committee on Children, Youth, and Families.

The Demographic and Behavioral Sciences Branch has an ongoing program of research on factors affecting fertility. Families often find that many important decisions are intertwined: the decision about when and how many children to have, whether both partners will work outside the home (and how many hours), and how the children will be cared for. One of the enduring factors affecting decisions about childbearing is the employment status of the mother. Women who work, by and large, have smaller families than those who do not. Of course, families in which both parents are employed (or in which there is a single mother who is employed) must provide care for the children during those work hours. We have, therefore, assessed the patterns of use of child care, trends over time, relationship to other family characteristics, and expenditure patterns. We have supported the collection of data and have funded analyses of these important interrelationships. I will share with you a part of these findings that are most germane to today's discussions.

I will limit my remarks, but would note three considerations that should be kept in mind. First, child care decisions are made in families, but I will refer primarily to the mother's characteristics, since these are found to be most closely related to family decisions about employment and child care. Second, income refers to total weekly family income before taxes. Third, data on which this testimony is based come from several sources, but all refer to the experience of American families obtained from large representative surveys of the U.S. population.

Trends in Demand for Child Care

To put my discussion of child care in the U.S. into perspective, it is important to understand the post World War II baby boom, which has had and continues to have a lasting effect on the structure of the population. The major increase in the number of births between 1946 and 1964 is known as the baby boom. Although both the numbers of births and the fertility rate began to decline after 1960, the baby boom babies are now adults and have been having their own children. The larger number of adults means a larger number of births, even though fertility rates are still low. As their children grow and begin to enter our educational institutions, we become aware of the impact of these changes in fertility. Consistent with the trends, Figure 1 shows that the number of preschool children declined until about 1980. After that year the number of preschoolers began to increase once again. By 1990 the number of expected preschoolers, 23 million, will be only slightly lower than the number of children under 5 at the height of the baby boom (24.6 million children), if current trends continue. The number of school-age children ages 6-13 declined until 1985, after which we expect an increase at least until 1995 (Hofferth and Phillips, 1987)(Figure 2B).

The second major trend of which you are all aware is the increased labor force participation of mothers. Here I will turn the statistics around and speak about the number and proportion of children who have mothers in the work force. This is because I am interested in the number of children who will be in non-parental child care. (Since few mothers have more than one child under 5, on average, proportions are very similar.) Data from the U.S. Department of Labor show that between 1970 and 1985 there was a tremendous increase in the proportion of young children with a mother in the work force. Just over the past decade, there was an increase of 57 percent in the proportion of children under age 1 with mothers in the work force compared with an increase of 32 percent in the proportion of children under age 6 with mothers in the work force. In 1985, six of ten school-age children and half of all children under 6 had mothers in the work force. Results of recent projections that I have made suggest that if current trends continue, by 1995 over three-quarters of school-age children and two-thirds of preschool children will have a mother in the work force, a total of 34.4 million school-age and 14.6 million preschoolers (Figures 1 and 2A). This increase in the number of children with employed mothers is due both to the expected increase in the number of children and to the expected continued increase in the labor force participation rates of their mothers (Hofferth and Phillips, 1987).

Now I would like to briefly discuss trends in the child care arrangements that mothers have been using. The two decades between 1965 and 1985 have shown a tremendous change in care for the children of employed mothers. Between 1965 and 1982 there was a gradual decline in care by a relative (including parents), a large decline in care by a non-relative in the child's home (sitter), a modest increase in care by a non-relative in that person's home (family day care home), and an enormous increase in care in a day care center or nursery school (data from the 1982 National Survey of Family Growth reported by Hofferth and Phillips, 1987). These changes can be seen in Figure 3. Recent data show continued increases in the proportion of children of employed mothers in child care centers--to over one-fifth of children under 5 with employed mothers in 1985 (U.S. Bureau of the Census, 1987).

Given that infants and toddlers are experiencing the most rapid growth in need for child care, parents' care choices for this population provide an important key to future demand for child care. For full-time employed mothers with infants and toddlers, reliance on relatives and family day care homes--the most commonly used forms of care for these young children--has declined in recent years, whereas use of day care centers has risen dramatically. Because full-time employed mothers constitute over two-thirds of mothers in the labor force with children under age 3, this shift toward use of group programs suggests that there will continue to be rapid growth in demand for centers. On the other hand, among part-time employed mothers with infants and toddlers, family day care homes--and to a lesser extent relatives--are showing the greatest increases in use. Family day care is thus also likely to grow, though probably at a lower rate than center care (Hofferth and Phillips, 1987).

Trends in the Supply of Child Care

Data show that the supply of licensed child care centers has approximately doubled over the last 10 years, from 18,307 licensed centers (with a capacity of 1.01 million children) in 1976 to about 40,000 in 1986 (with a capacity of approximately 2.1 million children)(Hofferth and Phillips, 1987). This is consistent with the dramatic growth in use of center-based care described earlier. There are several questions about supply, such as the capacity of centers to care for infants and toddlers, and the extent to which the supply of group care is underestimated, that remain unanswered.

Estimates of family day care homes are much harder to come by, since it has been estimated that approximately 94 percent are unlicensed, and therefore not included in the statistics. With regard to licensed day care homes, in 1986 the National Association for the Education of Young Children estimated that 105,417 such homes were in operation, compared to about 73,750 in 1977.

Trends in Cost of Child Care, 1975-1985[1]

Not all families with an employed mother pay for child care. In 1985, 20 percent paid nothing at all--15 percent of those with a youngest child under 5 and 33 percent of those with a youngest child 5 or older. This should be kept in mind when considering expenditures on care only among those who pay for care. Table 1 shows that among families with a youngest child under 5, only a little over half of those who use a relative paid for care, whereas almost all of those who use a sitter, a day care home, or center paid for care.

In 1985 the average weekly dollar cost of child care for all children (among young families who paid for care and who had a youngest child under 5) was $36.69. This ranged from $34.57 for those who paid a relative to $38.80 for those who paid a day care home provider (Table 1). The range of variation is small. Child care costs in 1975 are also represented in Table 2. There was much more variation in weekly payment on child care by type of arrangement in 1975 compared with 1985. When we do adjust expenditures over time to changes in the Consumer Price Index we see that, in fact, real expenditures on day care center care have not risen at all, and those on day care home care have risen only slightly, whereas those on relative and non-relative in home care have risen a lot.

Since weekly payment depends on the hours of care as well as on the hourly cost of that care, we have also calculated the mean hourly cost in 1975 and 1985 (Table 3). In 1985 mothers who were employed paid $.99 per hour for care by a relative for the primary arrangement for their youngest child under 5. They paid $1.17 per hour for care in a day care home, $1.37 per hour for care in a center, and $1.49 per hour for care by a non-relative in the child's home. Care by a sitter or nanny in the child's home is still the most expensive form of care; however, now it is clear that center care is next most expensive, with day care home care third in cost. Apparently, parents adjust their hours of care used so that the total expenditures on different forms of care turn out to be very similar, even though hourly costs vary substantially by type of arrangement.

Once the hourly costs are deflated to 1975 dollars, we see that over the past decade both the cost of relative care and the cost of a sitter in the child's home have risen around 40 percent, whereas the cost of day care home and center care have risen only 7 and 15 percent respectively. This certainly is consistent with the enormous movement into center and home care and away from relative and sitter care.

Finally, the hourly cost of care for an older child is higher than that for a younger child. Families simply use fewer hours of this care; thus total weekly costs are much lower than for older children.

Child Care Expenditures in 1985 and Expenditures as a Proportion of Family Income

A number of characteristics of the child and family as well as the arrangements themselves affect family expenditures on child care (Tables 4A and 4B). Families in which the child is under 5 (Table 4A) pay more than families in which the child is 5 or older (Table 4B), and families with a child under age 3 pay the most for care (Table 5). Unless they are poor or receive Aid to Families with Dependent Children (AFDC), black families pay less than white or Hispanic families. Families who are poor or who receive AFDC generally pay less for child care than those who are not poor. Families in which the mother is married or has a partner pay more for care than those who are not married or do not have a partner.

Which among these many characteristics are most important in determining how much different families pay for child care? Controlling for differences in other factors, it turns out that age of the youngest child, family income, and race are the most important factors associated with total expenditures on all children. Families with a young child under 5 pay more for child care than families with a youngest child 5 or older. High income families pay more than low income families. Finally, after controlling for income differences and other factors, white and Hispanic families pay more per week for child care than black families.

The type of child care arrangement used is an important determinant of expenditures on the primary arrangement for the youngest child. Expenditures on care by a non-relative in the child's home (a sitter or nanny) are highest, with expenditures on day care center and day care home care slightly lower, but all are more expensive than care by a relative. As in total expenditures on all children, higher income families spend more on child care for their youngest child, and those with a young child under five spend more than those with a child five or older. White and Hispanic families spend more than black families.

Research has addressed the ways families spend their income as it relates to their childbearing decisions. One way to look at the importance of child care for these decisions is to look not only at the magnitude of the cost but also at the cost in relation to family income. The actual dollar expenditure does not help us determine how large a chunk that expenditure takes out of a family's budget. Thus we have also calculated the proportion of total weekly family income that constitutes child care expenditures. In 1985 families with a youngest child under 5 spent 11 percent of their income on child care. Those with a youngest child 5 or older spent 9 percent of their income on child care.[2]

Differences by race, poverty, AFDC, and marital status are shown in Tables 4A and 4B. The poor pay a smaller total amount for child care than those who are not poor, but they pay a larger proportion of their incomes. For example, white mothers with a youngest child under 5 pay 9 percent of their income on child care if they are above the poverty line but 20 percent of their income if they are below the poverty line. Black mothers pay 8 percent of their income on child care if they are not poor, but 26 percent of their income if they are poor. Hispanic women pay 8 percent if nonpoor and 21 percent if poor. The comparisons are similar for women receiving and not receiving AFDC, except for black women receiving AFDC, who both pay a high dollar amount and a high proportion of their income on child care.[3] The most important factors associated with the proportion of income spent on the care of all children are income, partner status, and age of youngest child. Families with high incomes spend a lower proportion of their incomes on child care than do families with low incomes. Families with two partners pay a lower proportion of their income for child care compared with families consisting of only one parent. Families pay a higher proportion of their income on child care if they have a young child under five years of age than if the youngest is five or older.

Summary and Conclusions

The number of children with employed mothers is expected to rise at least until 1995 if trends continue as they have been over the past 15 years. Accompanying this increase in the number of children with employed mothers is a remarkable shift into group care arrangements for preschool children, and, increasingly, for infants and toddlers as well.

New data on expenditures on child care by mothers in their twenties who are employed, in school, or in training show that the cost of day care center and family day care have stayed constant or increased only slightly in real terms over the past decade, whereas the cost of care by a relative and in-home care by a non-relative (sitter) have increased greatly. Of course, a larger proportion (about half) of those using a relative for child care do not pay that provider, but the evidence shown here suggests that paid relative care is becoming more and more expensive in comparison with other care arrangements. Day care homes and centers look attractive in comparison to relative care and sitter care. Whether a rise in the cost of other forms of child care relative to center care has led to the increase in use of centers, or whether it is the other way around (demand for center care leading to increased supply and lower cost), it is increasingly clear that center care has become relatively attractive and continues to attract an increasing share of the market.

Finally, among those who pay for care, child care expenditures constitute a substantial proportion of the total weekly income of American families who pay for care--approximately 10 percent over all, but as high as 20 to 26 percent among poor families. While 10 percent is a substantial proportion of a family's income, comparable to expenditures on food, 20-25 percent constitutes a major expenditure item in the family budget, comparable to that of housing.

That concludes my statement. I will be pleased to answer any questions you may have.

Footnotes

1. The data used in this part come from the National Longitudinal Survey of Youth (NLS), conducted by the Ohio State University. This is a national survey of youth who were 14 to 21 in 1979, and who have been followed up every year since then. The data used come from a special set of questions about the cost of child care included in the 1985 wave, when these youth were ages 20-27. Blacks and Hispanics were oversampled, but sample weights were used in this analysis to adjust for differential sampling probabilities. It should be remembered that this is a young, relatively low income sample. (The median income of the NLS sample was $20,000 per year, compared with a median income of all U.S. households of $23,618 and all U.S. families of $27,735 in 1985.) The data reported here are limited to reports of some 1,200 mothers who are working, in school, or in a training program about their child care arrangements. The poverty level for a family of 3 in 1985 was $8,573; for a family of 4 it was $10,989.

2. Unfortunately we do not have the data to estimate what proportion of family income was spent on child care in 1975. However, given the apparent 8-percent decline in real earnings over the last decade (U.S. Bureau of the Census, 1986), we might expect the proportion of income spent on child care to be slightly higher today, even though actual dollar expenditures have not changed in real terms.

3. Child care expenditures of up to $160 per month are allowed to be deducted from income in computing AFDC eligibility and benefits. This may explain the high dollar expenditure and proportion of their income that black AFDC recipients paid for child care in 1985.

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FIGURE 1

Preschool Children with Mothers in the Labor Force, 1970–1995

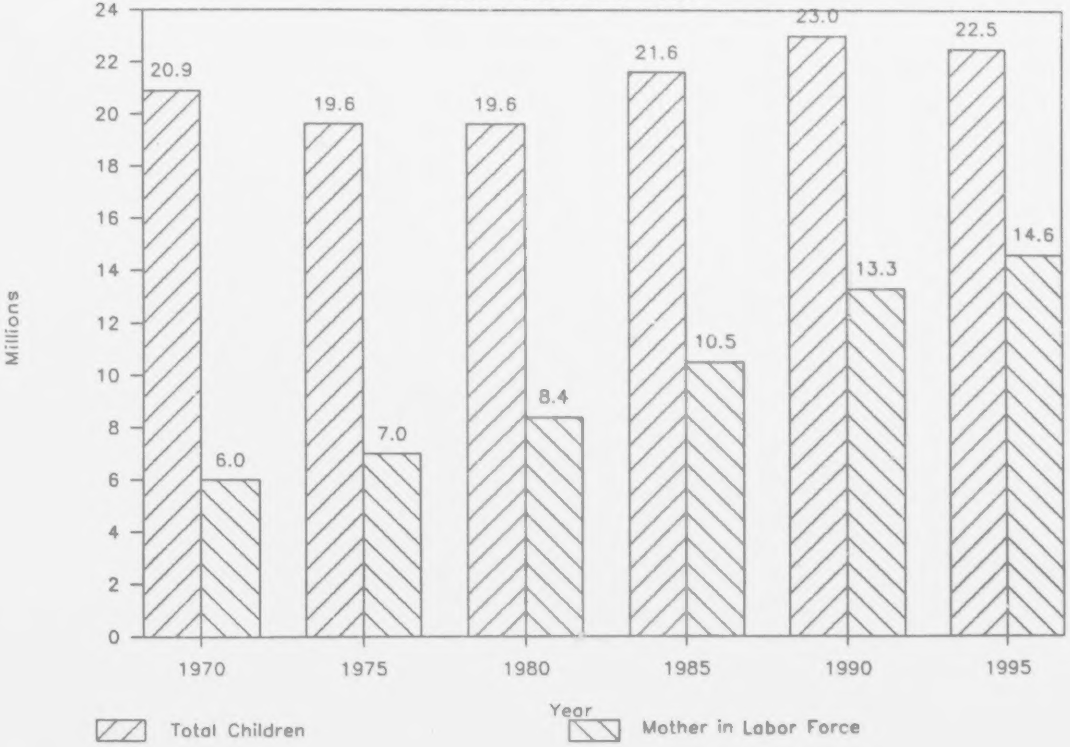
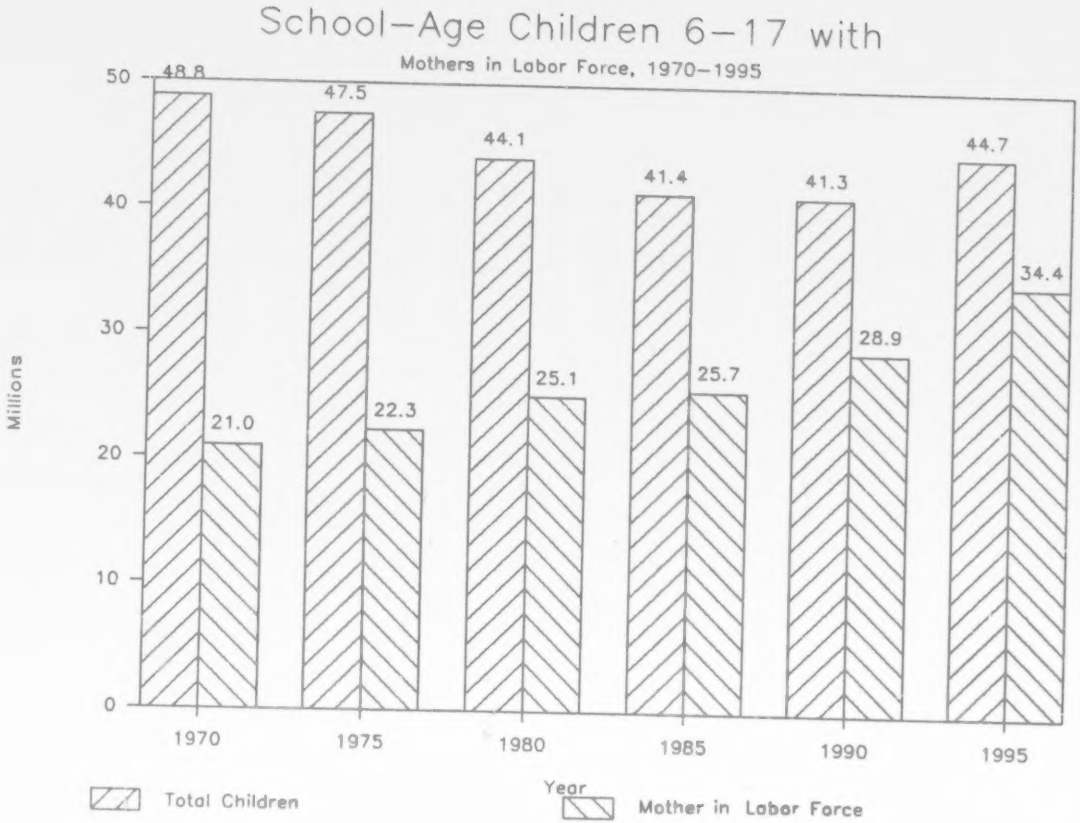


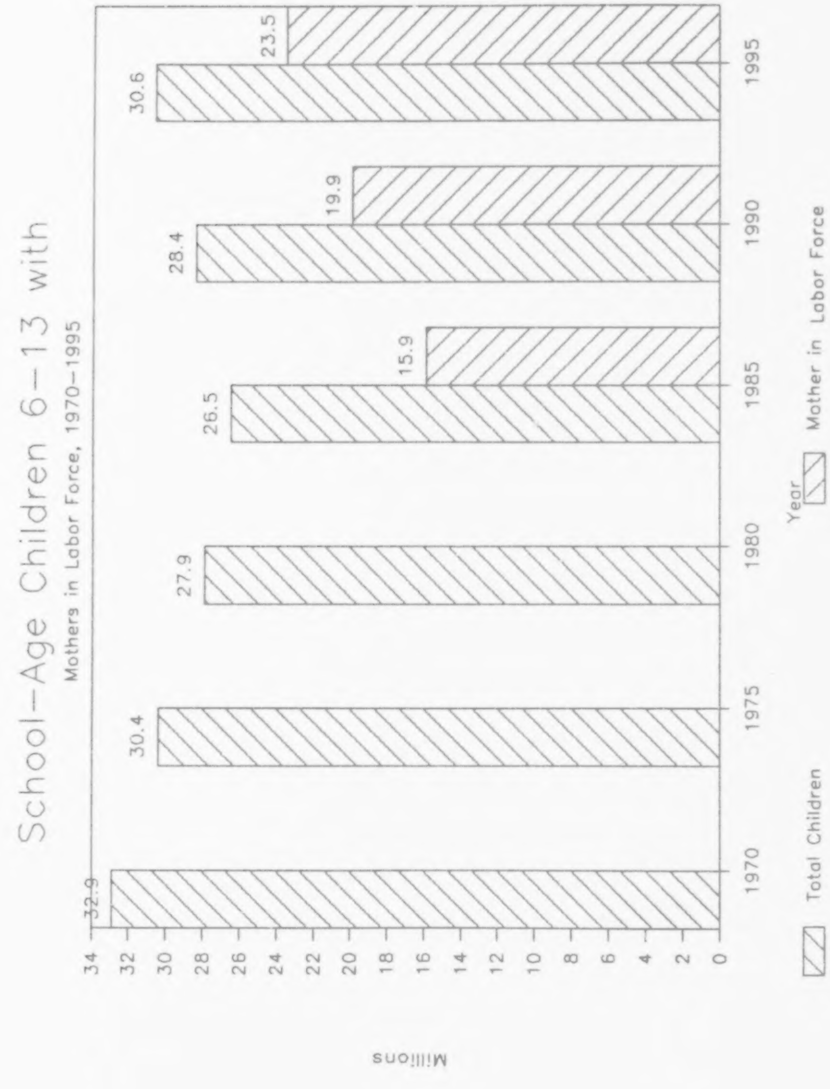
FIGURE 2A



School-Age Children 6–17 with

Mothers in Labor Force, 1970–1995

FIGURE 2B



School-Age Children 6–13 with Mothers in Labor Force, 1970–1995

FIGURE 3

Care of Preschool Children, 1965–1985

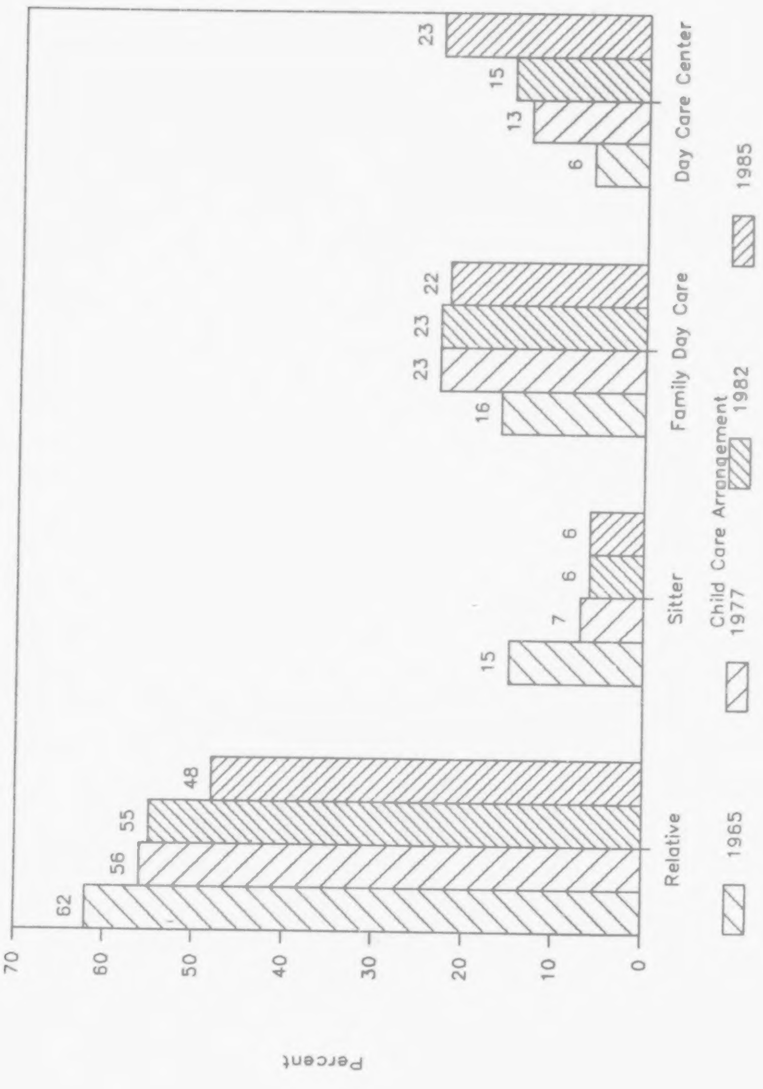


Table 1

Percentage of Families Not Paying for Care for Youngest Child, by Type of Arrangement for Youngest Child, and by Age of Child

Age of Youngest Child	Relative	Non-Relative in Child's Home (Sitter)	Day Care Home	Center, Nursery School
Under 5				
Do Not Pay	47.34	7.15	2.59	12.85
Pay for Care[1]	52.66	92.85	97.41	87.15
	100.00	100.00	100.00	100.00
5 or Older				
Do Not Pay	61.48	37.53	12.64	10.93
Pay for Care[1]	38.52	62.47	87.36	89.07
	100.00	100.00	100.00	100.00

[1] Includes payment in kind

Source: Unpublished tabulations from the National Longitudinal Survey of Youth (NLS)

Table 2

Mean Weekly Payment by Mothers Paying for Child Care, by Type of Arrangement and Survey Year

Year and Survey	Relative	Non-Relative in Child's Home (Sitter)	Day Care Home	Center, Nursery School	Total
1975 (UNCO)	$12.38	$ 7.78	$16.07	$19.56	---
1977-78 (NDCHS)	---	---	20.85	---	---
1976-77 (NDCCS)[1]	---	---	---	26.00	---
1985 (NLS)[2]	34.57	38.18	38.80	38.31	36.69
(deflated to 1975 dollars)	17.28	19.09	19.40	19.15	18.35
1985 (NLS)[3]	29.62	42.18	37.86	37.40	35.86
(deflated to 1975 dollars)	14.81	21.09	18.93	18.70	17.93
1985 (NLS)[4]	23.20	a	33.73	28.24	28.24
(deflated to 1975 dollars)	11.60	a	16.86	14.12	14.12

[1] Full-time children only
[2] Total payment for all children, youngest under 5, by primary arrangement for youngest child
[3] Payment for youngest child under 5 for primary care arrangement only
[4] Payment for youngest child 5 or older for primary care arrangement only
[a] Fewer than 10 cases in category

Sources:
UNCO: Moore and Hofferth, 1979
NDCHS: Fosburg et al, 1981
NDCCS: Coelen et al, 1979
NLS: Unpublished tabulations

Table 3

Mean Hourly Payment by Mothers Paying for Child Care, by Type of Arrangement and Survey Year

Year and Survey	Relative	Non-Relative in Child's Home (Sitter)	Day Care Home	Center, Nursery School
1975 (UNCO)	$ .36	$ .52	$ .55	$ .60
1977-78 (NDCHS)	---	---	.59	---
1976-77 (NDCCS)[1]	---	---	---	.65
1985 (NLS)[2]	.99	1.49	1.17	1.37
(deflated to 1975 dollars)	.50	.75	.59	.69
1985 (NLS)[3]	1.51	a	1.35	2.17
(deflated to 1975 dollars)	.75	---	.67	1.09

[1] Full-time children only
[2] Payment for youngest child under 5 for primary care arrangement only
[3] Payment for youngest child 5 or older for primary care arrangement only
[a] Fewer than 10 cases in category

Sources: UNCO: Moore and Hofferth, 1979
NDCHS: Fosburg et al, 1981
NDCCS: Coelen et al, 1979
NLS: Unpublished tabulations

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Table 4A

Mean Weekly Expenditure on Child Care for All Children, and Proportion of Total Weekly Income, Youngest Child Under 5, by Race and Poverty, AFDC and Partner Status, Those Paying for Care Only

	White (N)	Black (N)	Hispanic (N)	Total (N)
Total Cost	$37.63 (322)	$32.00 (177)	$38.51 (84)	$36.69 (587)
% of Income[1]	10.17 (289)	12.14 (145)	9.58 (68)	10.57 (505)
Not Poor				
Total	39.23 (275)	31.07 (122)	37.11 (66)	38.28 (465)
% of Income	9.12 (255)	7.72 (109)	7.74 (57)	8.83 (422)
Poor				
Total	21.41 (37)	27.52 (41)	31.20 (13)	25.02 (93)
% of Income	20.33 (34)	26.35 (36)	20.60 (11)	22.55 (83)
Not AFDC				
Total	38.70 (292)	30.82 (143)	40.03 (81)	37.52 (518)
% of Income	9.52 (262)	10.47 (118)	9.86 (65)	9.75 (447)
AFDC				
Total	24.03 (30)	25.84 (33)	a	28.73 (68)
% of Income	19.32 (27)	19.71 (27)	a	18.90 (58)
Has No Partner				
Total	33.57 (55)	27.09 (63)	48.09 (11)	31.90 (130)
% of Income	16.20 (47)	16.59 (51)	22.69 (10)	16.73 (109)
Has Partner				
Total	38.38 (267)	31.57 (114)	37.54 (73)	37.82 (457)
% of Income	9.11 (242)	9.75 (94)	8.13 (58)	9.19 (396)

[1] Total weekly expenditure/total weekly income

[a] Fewer than 10 cases in category

Source: Unpublished tabulations from the NLS

Table 4B

Mean Weekly Expenditure on Child Care for All Children, and Proportion of Total Weekly Income, Youngest Child 5 or Older, by Race and Poverty, AFDC Status and Partner Status, Those Paying for Care Only

	White (N)	Black (N)	Hispanic (N)	Total (N)
Total Cost	$28.18 (34)	$19.45 (28)	$18.55 (14)	$25.97 (78)
% of Income	8.12 (31)	11.33 (26)	5.20 (12)	8.68 (71)
Not Poor				
Total	28.74 (31)	22.15 (18)	21.26 (11)	26.38 (62)
% of Income	7.77 (29)	8.14 (18)	5.11 (11)	7.52 (60)
Poor				
Total	a	a	a	14.89 (12)
% of Income	a	a	a	17.80 (11)
Not AFDC				
Total	28.04 (31)	18.55 (21)	18.55 (14)	24.42 (68)
% of Income	7.09 (28)	9.04 (20)	5.20 (12)	7.32 (62)
AFDC				
Total	a	a	a	24.70 (10)
% of Income	a	a	a	a
Has No Partner				
Total	32.41 (12)	20.36 (19)	a	24.04 (35)
% of Income	15.33 (11)	13.44 (18)	a	13.11 (32)
Has Partner				
Total	26.53 (22)	a	22.46 (10)	24.75 (43)
% of Income	5.67 (20)	a	a	5.56 (39)

[a] Fewer than 10 cases in category

Source: Unpublished tabulations from the NLS

Table 5

Mean Weekly Expenditure on Child Care for All Children, and Proportion of Total Weekly Income, By Race and Age of Youngest Child, Those Paying for Care Only

Age of Youngest Child	White (N)	Black (N)	Hispanic (N)	Total (N)
0-2				
Total	$40.66 (157)	$39.21 (73)	$44.00 (29)	$40.58 (262)
% of Income	10.14 (140)	11.38 (58)	7.50 (21)	10.45 (222)
3-4				
Total	33.33 (121)	28.23 (75)	38.13 (48)	32.84 (244)
% of Income	10.04 (109)	12.15 (62)	10.81 (40)	10.50 (211)
5 or Older				
Total	34.94 (78)	21.42 (58)	21.33 (21)	30.56 (159)
% of Income	9.67 (71)	12.57 (51)	6.41 (19)	10.04 (143)

Source: Unpublished tabulations from the NLS

Chairman MILLER. Thank you.

Carol.

STATEMENT OF CAROL FRANCES, CAROL FRANCES AND ASSOCIATES, WASHINGTON, DC

Ms. FRANCES. My name is Carol Frances, and I am an independent analyst who specializes in the economics and finance of education. Thank you very much for the opportunity to return to this forum and update information on trends in college costs and the ability to pay for college.

With your permission, Mr. Chairman, I would like to present my testimony by way of looking at the charts and pictures. Rather than reading the testimony, could I go with you through the charts that will illustrate the answers to the questions that were suggested by the staff?

Chairman MILLER. Those are the exhibits in the back of your testimony?

Ms. FRANCES. Right.

Chairman MILLER. Okay.

Ms. FRANCES. The first question: What are the trends in college costs? Exhibit 1 shows that clearly they are going up. Exhibit 2 shows that they are going up faster since 1980 than in the previous half-decade.

The colleges and universities have been accused in the headlines of being greedy and profiteering, but I think it is important to understand that those costs of tuition are not going up because of increases in the underlying costs that the institutions are paying. Exhibit 4 shows that costs since 1980 have not been rising any faster than in the previous six years. What is going on is a difference in the revenue.

Exhibit 5 shows that the institutions are balancing their budgets. Revenues have gone up in order to match expenditure increases. However, public sources of support, Federal, State, and local, have not risen as fast as the basic costs. The consequence is that tuition has had to make up the difference. It is the budget balancing.

So the suggestions in the press that tuition has gone up faster than the cost of living is not an appropriate comparison, because we are looking at tuition not just as a cost but as the way the institutions have had to balance the budget. Now a very small shortfall in public revenues can be translated into a very large increase in tuition, because tuition is a small proportion of the total budget.

It has also been suggested that cost containment has worked in health and it ought to be tried in education, but I think we need to keep in mind that the people who are employed in education have lost significantly in the real purchasing power of their salaries. Exhibit 7 shows the cumulative loss of purchasing power of people employed as faculty in colleges and universities.

Exhibit 8 shows that while there were gains made in the 1960's those gains were all wiped out in the 1970's, so that by the mid-1980's people employed in education are about where they were in the mid-1960's, which means that they are below other professionals who have made some gains in the mid-1980's to recover from the losses made because of inflation.

The second question that was posed is, what are the trends in income in relation to the trends in college costs? Exhibit 9 is an effort to answer that question. Again, the headlines have said that income has kept up with college costs, but I think that because of the great diversity in enrollment in America's colleges and universities today no single measure of income is adequate to explain what is going on.

So I took a look at 24 different kinds of families and looked at 6 different kinds of educational options, and since 1980, the period from 1980 to 1985, there are practically no major household groups whose income is rising as fast as the cost of college.

Relating to some of the questions posed to the previous panel, if you look at the bottom of Exhibit 9, the minimum wage increase has only been about 8 percent in the face of college costs that have been rising 50 or 60 percent.

The third question is, what are trends in enrollment? Exhibit 10 is a picture of trends in enrollment over the last 40 years. The enrollment has stayed about 12 million since 1980. This is news, because there has been a dramatic decrease in the college age population. The number of 18-year-olds decreased almost 12 percent, and yet the enrollment went down less than 1 percent.

What are the forces explaining the fact that enrollment is staying up in spite of the demographic decline? Exhibit 11 shows increases in the college-going rates in the 1980's. Now why are the college-going rates going up? One of the explanations might be shown in Exhibit 12, which is comparatively high unemployment rates for college-aged youth. Even though they have declined dramatically since the early 1980's, they still remain comparatively high, especially so for minority youth of college age, as explained in Exhibit 13.

Exhibit 14 shows something about the resources available in the form of student aid to students. Underneath this is a dramatic shift in the form in which aid is awarded. There has been a dramatic shift from grants to loans. In the mid-1970's, three-quarters of the aid was awarded in the form of grants. The share has dropped to less than half that. Meanwhile, the proportion of aid awarded in the form of loans has risen from around 20 percent to over 60 percent in the mid-1980's, and the proportion awarded in terms of opportunities to work is about the same at 4 or 5 percent. Anyway, we have a dramatic shift in the structure of student aid.

Exhibit 15 makes a point with respect to how the aid is paid and whether it is paid to students or paid on behalf of students to banks and other lenders. There has been considerable argument that the availability of student aid has fueled the increases in college and university tuition, but the aid paid to students has not risen dramatically and, I think, is not plausible as an explanation for the increase in tuition.

Chart 16 shows what the situation would be for a student attempting to work through school based on minimum wage. Now many students don't work at the minimum wage, but if the minimum wage is our wage floor under hourly workers this would at least show the trend. This is the hours necessary to work to pay for college tuition, room, and board if the student were working at a minimum wage job, and it shows a dramatic increase in the 1980's. They would have to work considerably more than full-time.

There is a very significant proportion of college students who are employed in the labor force and employed. Close to 90 percent of the part-time students in college work, and close to 40 percent of the full-time students work. So they are getting through college substantially by working. Nonetheless, the wages that they can earn toward that college cost is not keeping up with increases in the costs, and, as a result, larger and larger numbers of students are taking out loans, and total loan commitments since the inception of the Guaranteed Student Loan Program are shown in Exhibit 17. We have had a significant increase in the 1980's.

Exhibit 18 shows an increase in the number of people below the poverty line, with the consequence that, even if we have a targeting of student aid to the low-income student because there are more of them, it is very likely that we will not have an increase in the aid awarded to individual needy students.

The result is that the institutions themselves, as shown on Exhibit 20, are providing institutionally-funded student aid, which is doubled from under $3 billion to close to $6 billion of aid in the early 1980's, which is leading to increases in costs, which is part of the reason that tuitions are increasing.

I wanted to add a chart to close the testimony, which is the freestanding chart, the purpose of which is to show the relative ability to pay for college by household heads of different age. If the highest income group is the 45 to 54-year-old group, which is at 100, what it shows is that those in the college age group that may be trying to earn the income to pay for college, their relative ability to pay for college has eroded significantly over the last several decades.

Basically, as a Nation, we have done a good job in improving the well-being of the older and retired household heads. Where many of them were in poverty in the 1960's, we have done a good job of improving their situation. Meanwhile, we have allowed the situation of the younger households to worsen in relation to the investments that they would be making.

The final question is: What is the outlook? On the cost side, I expect tuition increases to slow down, and on the revenue side, it all depends on where you are in the economic system because of the greater inequality in the system that we are experiencing.

Thank you very much for the opportunity to share this information with you.

[Prepared statement of Carol Frances follows:]

PREPARED STATEMENT OF CAROL FRANCES, CAROL FRANCES AND ASSOCIATES, WASHINGTON, DC

TRENDS IN COLLEGE COSTS AND THE ABILITY TO PAY FOR COLLEGE

Mr. Chairman and Members of the Select Committee:

My name is Carol Frances. I am an independent analyst who specializes in the economics and finance of higher education. I work with individual colleges and universities, education associations, private industry, and government agencies.

I want to thank you very much for your invitation to return to this forum to update information on trends in college costs in relation to the ability to pay for college.

I will summarize very briefly conclusions drawn from extensive analysis of trend data done in connection with two reports: the first, on institutional costs, commissioned by the American Federation of Teachers and the Association of Urban Universities; and the second, on ability to pay for college, commissioned by the American Association of Community and Junior Colleges and the American Association of State Colleges and Universities. The conclusions presented in this testimony are my own, and do not necessarily reflect the views of any of the organizations which sponsored the studies.

Your Committee has posed five specific questions:

1. What are the recent trends in college costs?

Students are paying higher tuition because public support--including both state appropriations and Federal student aid--have not kept pace with inflation.

Since 1980, college tuition and fees have increased at faster annual rates than they did in the previous five or ten years. (See Exhibits 1-3.) The reason is not, however, that total costs paid by the colleges and universities for the services and supplies that they bought are going up faster than before. Indeed, overall cost increases--as measured by the Higher Education Price Index--from 1980 to 1986 were no greater than they were from 1974 to 1980, because the cost components with higher rates of increase in the earlier period were the components with the lower rates in the later period, and vice-versa. (See Exhibit 4.)

The reason tuition has increased faster is that revenues from public sources have not increased as fast as costs. (See Exhibit 5.) Colleges and universities generally have less control over revenues from public sources than they do over tuition, so tuition functions to balance the budget when revenues from public sources do not keep up with underlying cost increases. A small percentage shortfall in the public sources of revenue can translate into a very large percentage increase in tuition. (See Exhibit 6.)

Tuition has increased faster than the consumer price index recently but this is not a completely appropriate comparison because tuition is not just a "cost". Tuition also plays a central role in balancing college and university budgets.

Thus, tuition is currently increasing because students are bearing a larger share of the costs of their education.

Colleges and universities are concerned about costs, and about holding costs as low as possible. It has been argued that cost containment has worked in health and it should be tried in higher education. One big difference should be kept in mind, however, which is that people employed in higher education have lost ground in relation to workers generally while people employed in health have gained. From the early 1970s to the early 1980s, college faculty lost close to a quarter of the purchasing power of their incomes--a greater loss than for other professionals and for workers in general. (See Exhibit 7.) Since the early 1980s, faculty have regained some of those losses in real income, but not to the extent that other professionals have. (See Exhibit 8.)

Cost issues in higher education relate more to such basic questions as who should have the opportunity to go to college, what should be taught, and what is the proper balance between instruction and student services than it does to containment of unit costs.

2. What are the trends in costs in relation to family income?

For college students and their families the current reality is that income is not keeping up with college costs.

Because of the large and growing diversity of students in American higher education, no single measure of income adequately reflects the range of economic circumstances characterizing their ability to pay for college.

To develop a much more comprehensive analysis of trends in the ability to pay for college, I have identified students in different economic circumstances, indicating whether they were dependent on family income or independent; and if they were dependent family members, whether they were members of two-parent or single-parent households. I have also differentiated economic circumstances by age, race, and occupation of the household head.

Overall, looking at trends in the income of 24 different types of households in relation to college costs, it is clear that since 1980, for the vast majority of students, income has not kept up with college costs. (See Exhibit 9).

Controversy over trends in the ability to pay for college was fueled recently by reports that income was keeping up with college costs. But to reach that conclusion, the analysts had to use per capita income instead of family income. On the face of it, per capita income--because it is based on a more comprehensive definition of income--might give a better picture of whether resources to pay for college are keeping up with college costs.

Per capita income includes both money income and non-money income. Since non-money income could free-up money income to pay for college it might make sense to include it. The problem is, however, that non-money income is largely in the form of medical payments to the elderly, and pension benefits to retired people, and school lunches for very young children. The non-money income does not, therefore, go to families with members in age groups likeliest to go to college--and further, the transfer payments are needed by the families that receive them to pay for the added costs of living of retired people or medical expenses of sick people.

College costs outstripped both family income and per capita income over the last five years and the last ten years. The only way the reports could come up with the conclusion that income was keeping up with college costs was to use the per capita income series and use a time period going back 15 years.

Social forces bearing on American families should also be taken into account in assessing their ability to pay for college. For instance, the number of single-parent households in the U. S has increased by more than 80 percent since 1970, five times as rapidly as the number of married couple households. One out of every four American family households is headed by a single person. Close to four-fifths of these households are headed by women, with average household income not much more than half that of married couple households. The number of youngsters approaching college age in these households is disproportionately high and increasing, and they have much greater difficulty paying for college education than those from two-parent families.

3. What are the trends in enrollment?

Total Enrollment

College enrollment at the opening of the **academic** year 1986-87 was just over 12 million. (See Exhibit 10.) **Total enrollment has been holding within a range of 12.5 million to 12.2 million for the last five years.** This is news because from 1980 to 1985 the college-age population decreased and many earlier analysts had projected significant declines in enrollment based on the decline in the college-age population.

College-Going Rates.

Part of the reason for increased college enrollment is increases in college-going rates. (See Exhibit 11.) Indeed, the percentage of the college-age population actually enrolling increased enough to offset the decline in the number of people in the college-age group.

Enrollment by Age Group

The favorable trends in college enrollment can be seen by grouping the Census data on population and enrollment by six age categories. College enrollment of 18-19 year-olds decreased less than one percent (0.9 percent) even though the population in that age group decreased by 11.7 percent from 1980 to 1985. College enrollment of 20 to 21 year-olds increased 8 percent even though the age group decreased 5.3 percent.

Overall, just under half of the increase in college enrollment from 1980 to 1985 (based on Census school enrollment figures covering the population age 3 to 34) was accounted for by students in the traditional 18-24 college age group, and just over half was accounted for by students 25 to 34.

Minority Enrollment

Trends in minority enrollment are mixed during the 1980s. Enrollment of black men and women has decreased significantly since peaks in the early to mid-80s. Enrollmen of Hispanic men and women has continued to increase. From 1980 to 1985, Hispanic enrollment increased close to 30%. This appears to be true because of increases in the Hispanic population and increases in the high school graduation rate among Hispanics. College-going rates among Hispanic high-school graduates have not increased, however. In any event, while Hispanics accounted for only a little over 4% of college enrollment in 1980, they account for close to 20% of the increase in enrollment from 1980 to 1985.

4. What are the economic forces responsible for these trends?

Major economic forces responsible for these trends include:

Transformation of the economic base

The major economic force shaping higher education in the United States today is acceleration in the transformation of the economic base from physical,resources to human resources in the face of global competition. Yet national investment policies, in both the private and the public sectors have focussed primarily on physical resources--on investment in plant and equipment without equal attention to investment in people.

Inflation

During the period of high inflation from the early 1970s to the early 1980s, college and universities held tuition increases below the cost of living increases. Over this period, the resource base of the institutions was eroded: physical plant and equipment was undermaintained; financial assets per student in real terms declined; and the faculty, the human resources, lost real income.

Dramatic decreases in inflation since the early 1980s enabled the colleges and universities to begin restoring their asset bases. Faced either with a permanent reduction in the relative economic status of people they employ--and a loss in their ability to attract good new people into teaching in the future--or compensatory increases in incomes, they have made up some of the earlier losses in real income with salary increases greater than the increase in the cost of living.

Unemployment

Though the unemployment rate has declined significantly from peak levels in 1981 and 1982, it remains high by historical standards, even for the college-age group, (See Exhibit 12) and especially for minority youth. (See Exhibit 13.)

People without jobs enroll in college to improve their future prospects. Consequently, high unemployment rates have probably played a role in sustaining college enrollment.

Student Aid

Federal aid paid to students has not kept up with tuition costs and the the share of student aid packages awarded as grants has decreased significantly while the share awarded as loans has increased. (Exhibits 14 and 15.)

A very large percentage of students are trying to cope with college costs by working. Over 40 percent of the full-time students work and almost 90 percent of the half-time students work.

The income that students can earn is not keeping pace with college costs, however, which contributes to greater and greater reliance on loans. The statutory minimum wage is a floor under hourly wage rates that may be used as one measure--if not of the level at least of the trends--in the earnings of young college students working at entry-level jobs. College costs have outstripped trends in their hourly earnings, making it much more difficult for students to work their way through college. (See Exhibit 16.)

Student aid paid to students has not kept pace with college costs and self-help requirements under the student aid programs are much more difficult for some students to meet than for others. The summer earnings, for instance, of a young white male student trying to earn money toward his tuition for the fall semester may be three times as much as the summer earnings of the young black female student trying to meet the same tuition bill at the same institution.

The growing gap between college costs and what students can earn contributes to their growing reliance on loans. (See Exhibit 17.) Almost half of the graduates leave college with loans to repay. And the amounts borrowed per student are increasing.

Targeting of student aid on the lowest income students with the greatest need is, in itself, a laudable goal. Where, however, it is associated with a stringent budget policy, it may function more to eliminate middle-income students from eligibility for aid than to increase the amount of aid per low income student because of the significant increases in the numbers of families below the official poverty line since 1980. (See Exhibit 18.)

The availability of student financial aid is not fueling tuition increases. Indeed, over the last fifteen years, the five-year period with the largest percentage increase in student aid is also the period with the smallest percentage increase in tuition and the period with the smallest percentage increase in student aid is the period with the largest percentage increase in tuition. (See Exhibit 19.)

Because student aid has not kept pace with student costs, institutions have provided more of the student aid themselves from their own general funds. (See Exhibit 20.) Institutionally funded student aid has more than doubled since 1980 from well under $3 billion to about $6 billion--becoming among the fastest growing components of college and university budgets. (See Exhibit 21.) The increasing costs to the colleges of providing this aid is part of the reason tuitions have increased.

5. What is the outlook for the future of college costs and affordability?

On the Cost Side:

Year-to-year increases in college tuition have slowed markedly over the last several years as the institutions have come closer to making up for the losses in income of the faculty. And the prospects for further slowing of cost increases in higher education are good because the largest component of cost of the institutions is faculty salaries which lag overall cost trends--and general inflation is still low in comparison with the late 1970s and early 1980s.

On the Income Side:

Whether it is getting easier or not to pay for college depends on which economic group you are in. Economic conditions and policies are resulting in greater income inequality in the United States.

The gap in income between the rich and the poor is growing. The gap in income between the whites and the blacks and Hispanics is growing. And the gap in income between the salaried workers and the hourly workers is growing.

Ultimately, the outlook for college costs and the ability of students and their families to pay depend on larger economic forces.

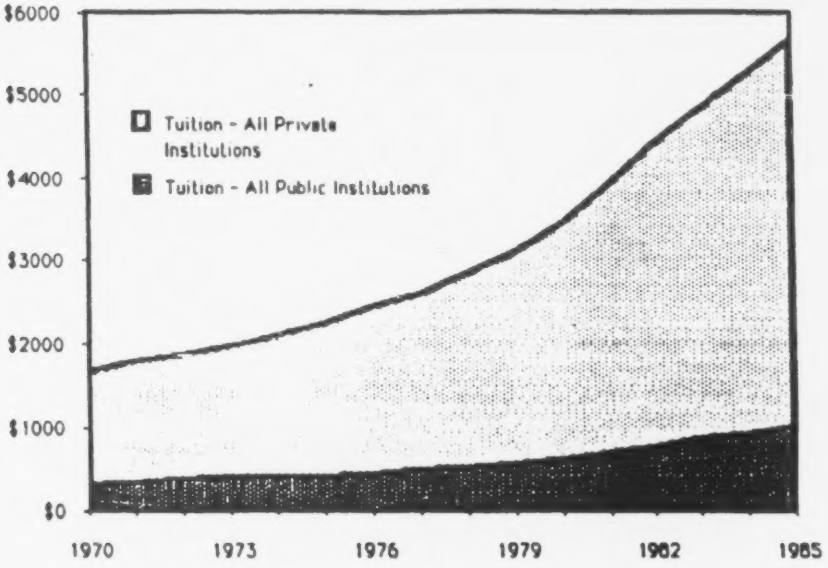
Economic competition and economic transformation affect overall economic growth rates, personal income and savings, corporate profits, and Federal and State budget resources to pay for education.

Economic competition and economic transformation have resulted in dramatic shifts, in all regions of the country, in the industrial structure and the occupational structure. That, in turn, affects the kind of education employers need and students want.

The educational preparation of children, the opportunities of young people and adults to go to college and the ability of families to pay for it depend on a better balance in the United States between investments in bricks and mortar and investments in people--and on renewed concern about equality of opportunity.

Exhibit 1

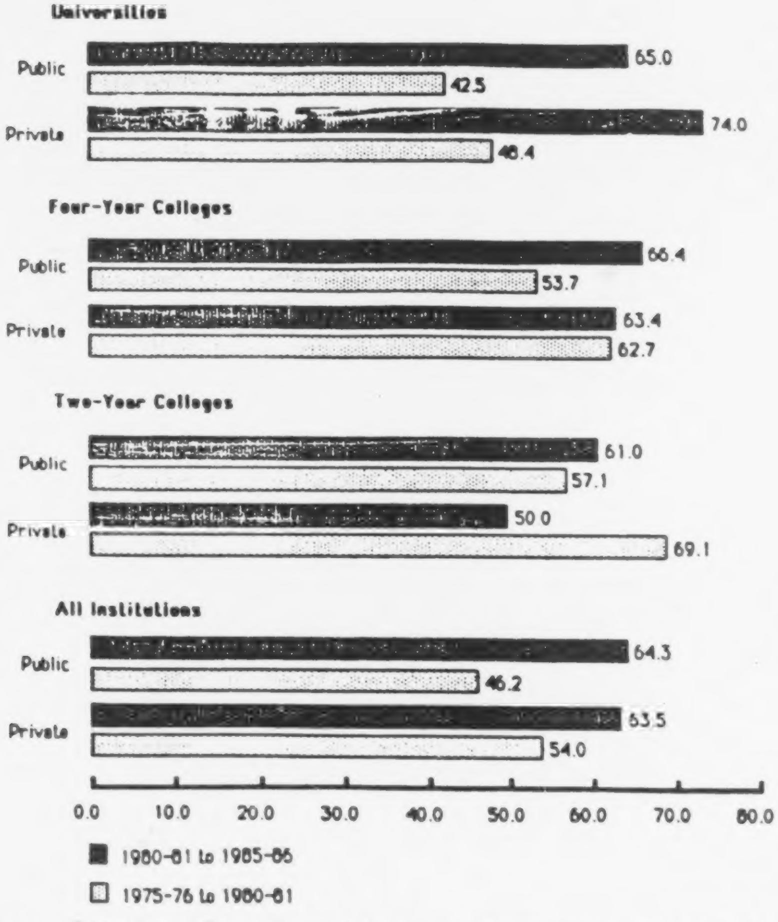
TRENDS IN TUITION AND REQUIRED FEES IN PUBLIC AND PRIVATE INSTITUTIONS



Source: U.S. Department of Education, Center for Education Statistics.

Exhibit 2

PERCENT INCREASE IN TUITION AND REQUIRED FEES



Source: Based on data from the U. S. Department of Education, Center for Education Statistics.

Exhibit 3

TUITION AND REQUIRED FEES

For Full-Time, In-State, Undergraduates

		Universities		Four-Year Colleges		Two-Year Colleges		All Institutions	
		Public	Private	Public	Private	Public	Private	Public	Private
1963-64		281	1,216	215	935	97	642	234	1,012
1964-65		298	1,297	224	1,023	99	702	243	1,088
1965-66		327	1,369	241	1,086	109	768	257	1,154
1966-67		360	1,456	259	1,162	121	845	275	1,233
1967-68		366	1,534	268	1,237	144	892	283	1,297
1968-69		377	1,638	281	1,335	170	956	295	1,383
1969-70		427	1,809	306	1,468	178	1,034	323	1,533
1970-71		478	1,980	332	1,603	187	1,109	351	1,684
1971-72		526	2,133	354	1,721	192	1,172	376	1,820
1972-73		566	2,226	455	1,846	233	1,221	407	1,898
1973-74		581	2,375	463	1,925	274	1,303	438	1,989
1974-75		599	2,614	448	1,954	277	1,367	432	2,117
1975-76		642	2,881	469	2,084	245	1,427	433	2,272
1976-77		689	3,051	564	2,351	283	1,592	479	2,467
1977-78		736	3,240	596	2,520	306	1,706	512	2,624
1978-79		777	3,487	622	2,771	327	1,831	543	2,867
1979-80		840	3,811	662	3,020	355	2,062	583	3,130
1980-81		915	4,275	721	3,390	385	2,413	633	3,498
1981-82		1,042	4,887	813	3,855	432	2,697	721	3,972
1982-83		1,164	5,583	936	4,329	473	3,008	798	4,439
1983-84	r	1,284	6,217	1,052	4,726	528	3,099	891	4,851
1984-85	p	1,388	6,826	1,116	5,126	579	3,348	960	5,281
1985-86	e	1,510	7,440	1,200	5,540	620	3,620	1,040	5,720

Note: r = revised, p = preliminary, e = estimate

Source: U.S. Department of Education, Center for Education Statistics, Digest of Education Statistics, 1985-86.

Percent Increase:

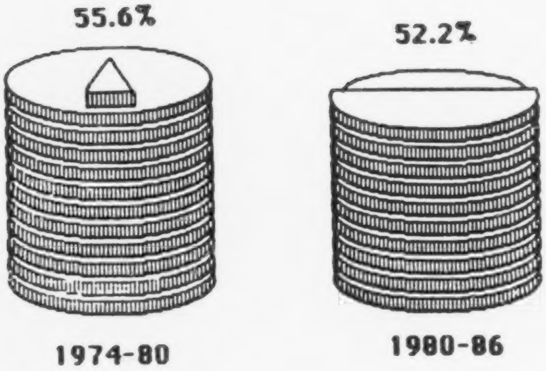
1975-76 to 1980-81	42.5	48.4	53.7	62.7	57.1	69.1	46.2	54.0
1980-81 to 1985-86	65.0	81.1	66.4	63.4	61.0	50.0	64.3	63.5
1970-71 to 1985-86	215.9	290.9	261.4	245.6	231.6	226.4	196.3	239.7

Exhibit 4

HIGHER EDUCATION PRICE INDEX

Percent Increase:

1974 to 1980 Compared With 1980 to 1986



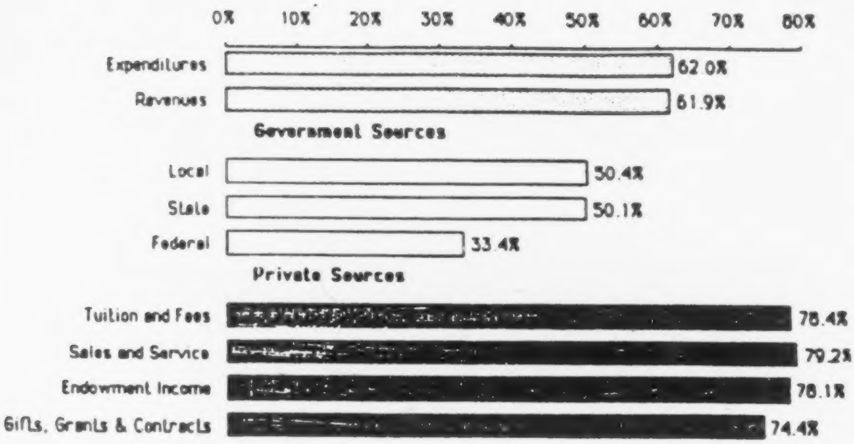
Source: Based on data from the Higher Education Price Index, prepared and published by Kent Halstead, Research Associates.

Exhibit 5

TRENDS IN CURRENT FUND REVENUES

PERCENT INCREASE

1979-80 to 1984-85



Source: U.S. Department of Education.
Center for Education Statistics.

Exhibit 6

WHY TUITION KEEPS GOING UP

1. COST PRESSURES
2. SPENDING PRESSURES
3. REVENUE SHORTFALLS

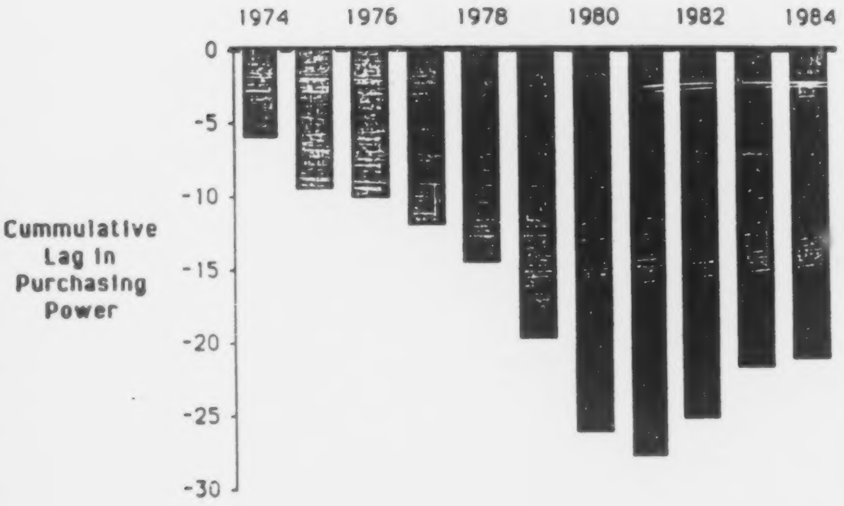
EXAMPLE:

	Year 1		Year 2		Percent Increase
Total Expenditures	100		104		4
Total Revenues	100		104		4
Tuition and Fees and Other Private Sources	50		56		12
Federal, State, and Local Sources	50		48		- 4

	Year 1		Year 2		Percent Increase
Total Expenditures	100		104		4
Instruction	50		48		- 4
Academic Support Computers	10	(10) ($1000)	12	(15) ($800)	20
Operation and Maintenance	10		10		-
Repair	5		6		20
Utilities	5		4		- 20
Other	30		34		13

Exhibit 7

CUMULATIVE LAG IN THE PURCHASING POWER OF FACULTY SALARIES



Note: The cumulative lag in purchasing power is calculated as the difference between the rate of increase in faculty salaries and the rate of increase in the consumer price index.

Sources: Calculated from data from:
American Association of University Professors.
U.S. Bureau of Labor Statistics.

Exhibit 8

Trends in Average Salaries

Average Salaries (in 1987 dollars) in Selected White Collar Professions

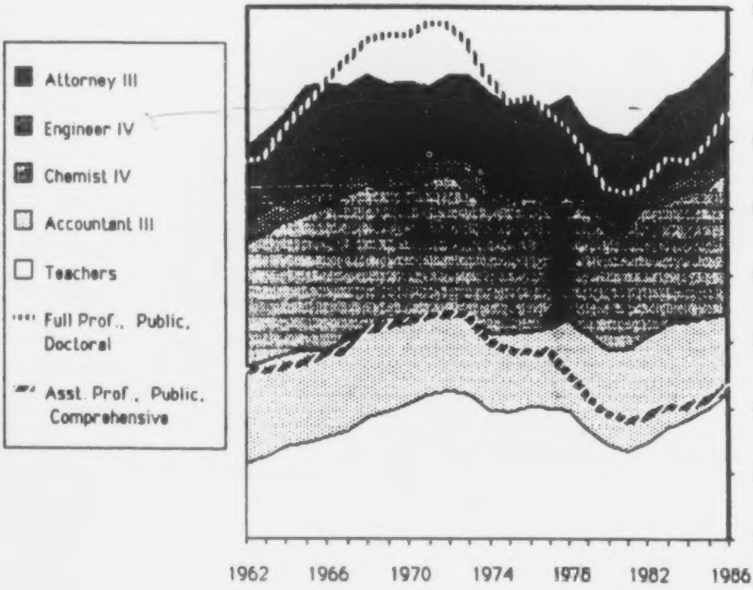


Exhibit 9

COMPARISON OF TRENDS IN INCOME AND TUITION, 1980-85

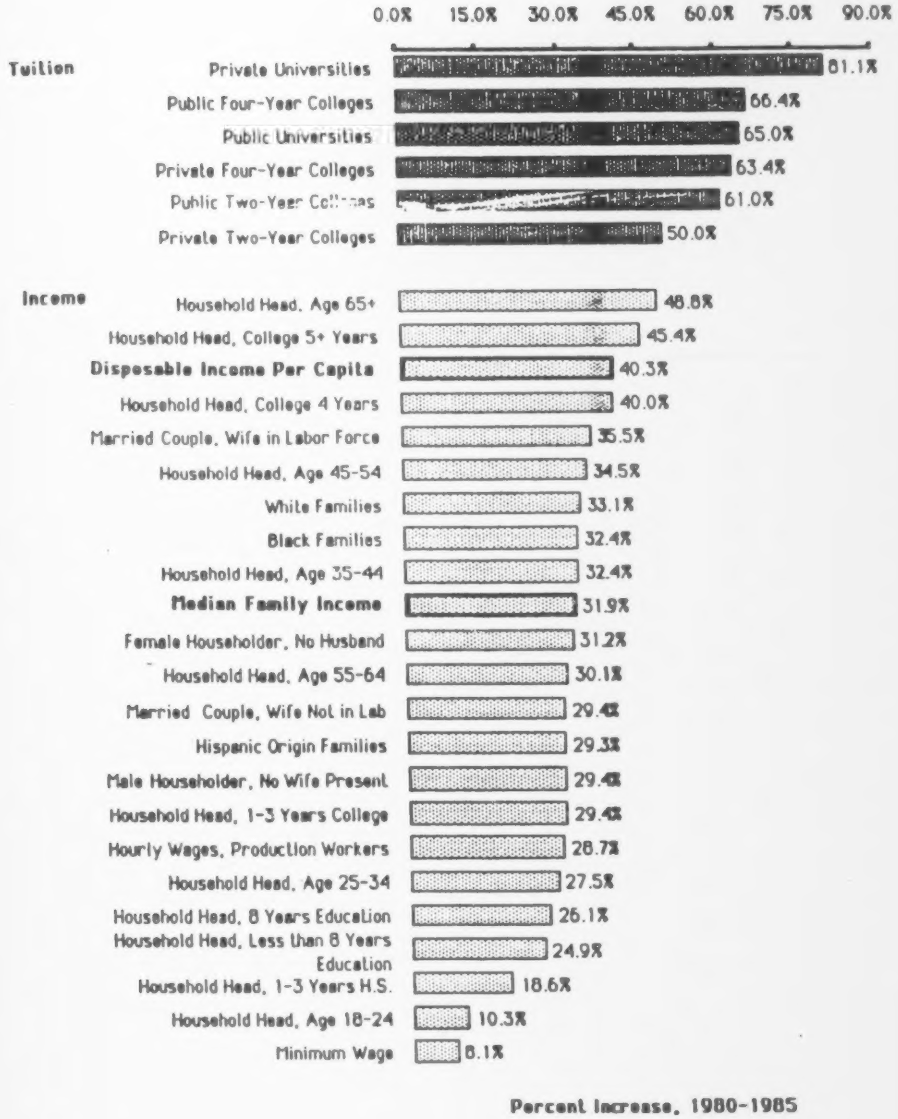
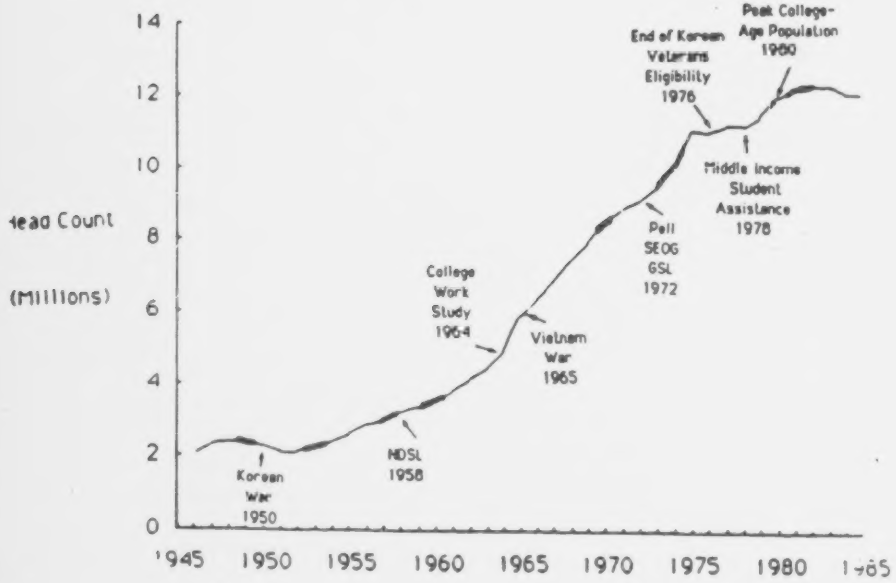


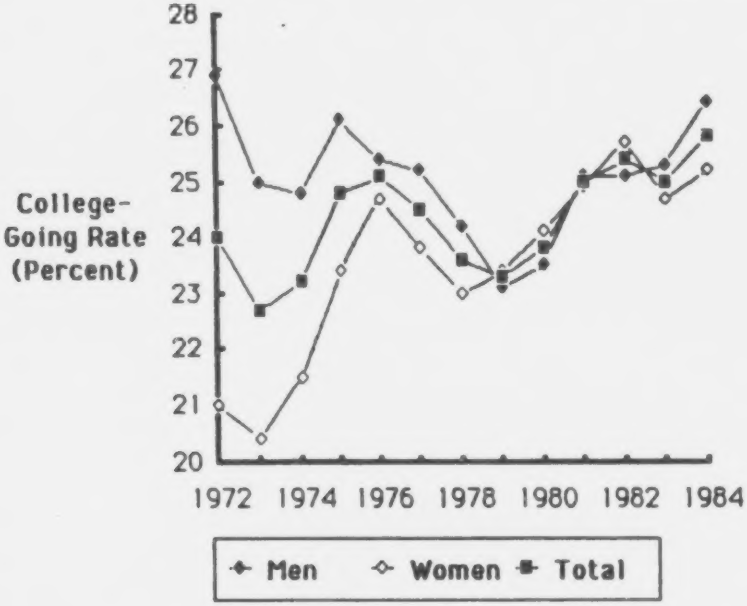
Exhibit 10

CHRONOLOGY OF ECONOMIC CYCLES AND POLITICAL EVENTS THAT HAVE AFFECTED COLLEGE ENROLLMENT



Source: Based on data from the U.S. Department of Education, the U.S. Department of Commerce, and the U.S. Congress.

Exhibit 11

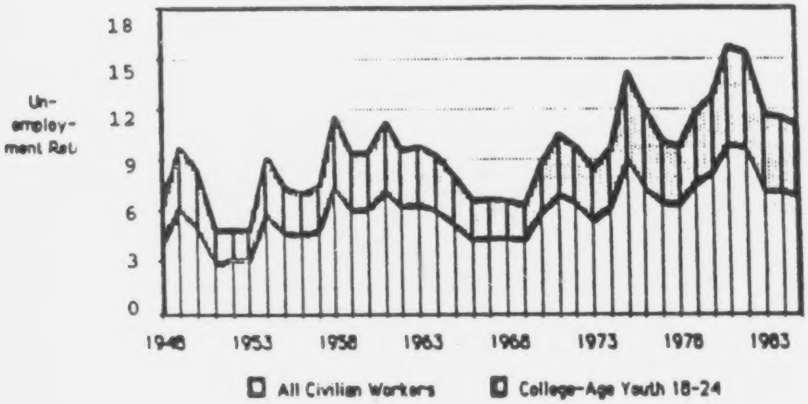


Trends in the College-Going Rate

Exhibit 12

UNEMPLOYMENT RATE OF COLLEGE-AGE YOUTH COMPARED TO THE RATE FOR ALL CIVILIAN WORKERS

1948 - 1985



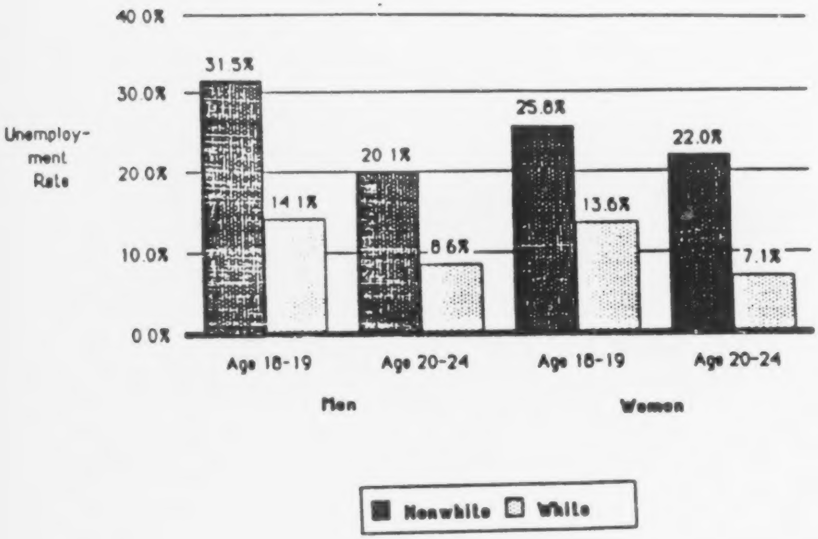
Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings.

Exhibit 13

UNEMPLOYMENT RATES
OF
COLLEGE-AGE YOUTH

By Gender and Race

1986



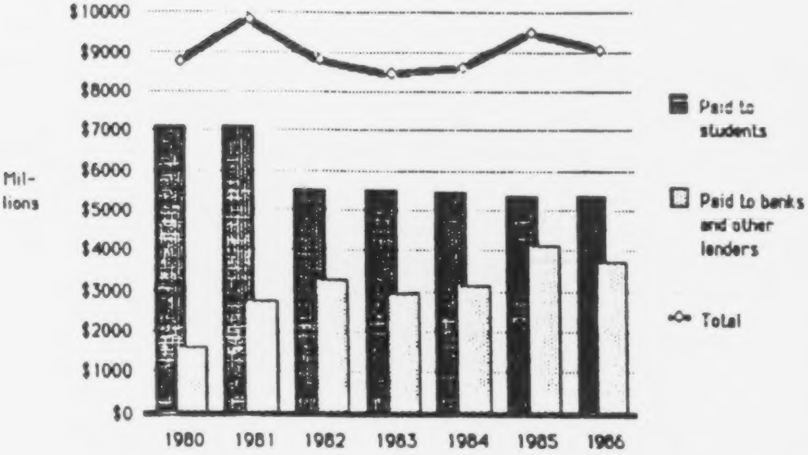
Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings.

Exhibit 14

TRENDS IN FEDERAL STUDENT AID *

Current Dollars

1980 - 1986



Note: Includes private loan funds provided to students by banks and other lenders under the Guaranteed Student Loan Program.

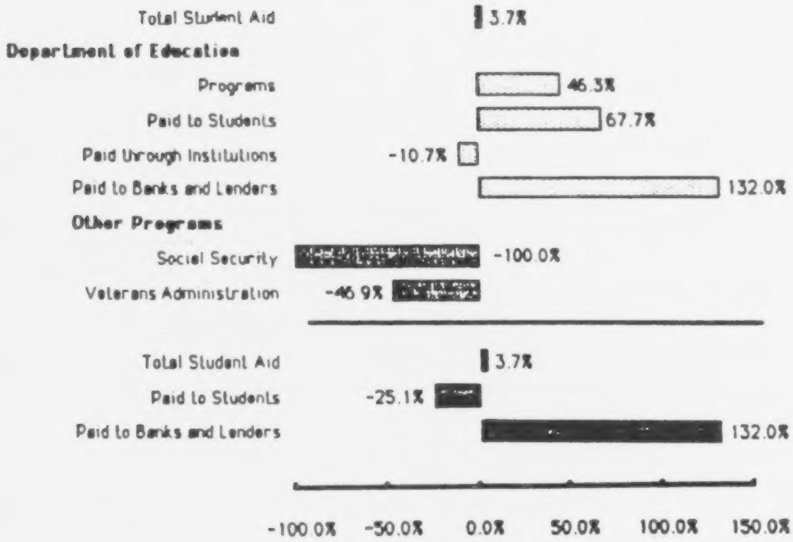
Source: Based on data from the U. S. Department of Education, Center for Statistics; Office of Management and Budget; Veterans Administration; and College Board.

Exhibit 15

TRENDS IN FEDERAL OUTLAYS FOR STUDENT AID

Percent Increase:

1980 to 1986



Source: Based on data from the U. S. Department of Education, Center for Statistics; Office of Management and Budget; Veterans Administration; and College Board.

Exhibit 16

HOURS NECESSARY TO WORK
TO PAY TUITION, ROOM AND BOARD

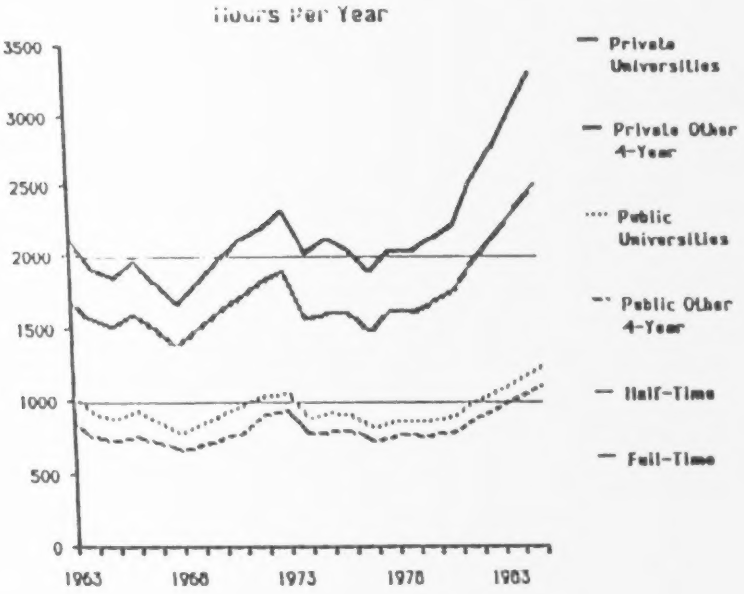
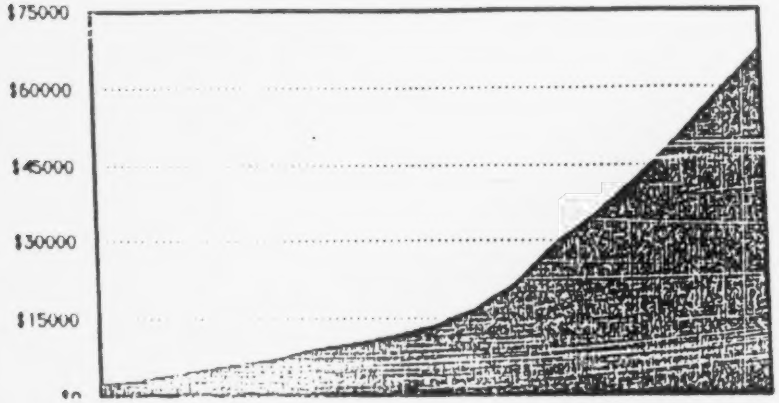


Exhibit 17

STUDENT LOAN COMMITMENTS

Cumulative Commitments Since Inception of the Program

1967-1986



Source: U.S. Department of Education, Guaranteed Student Loan Program.

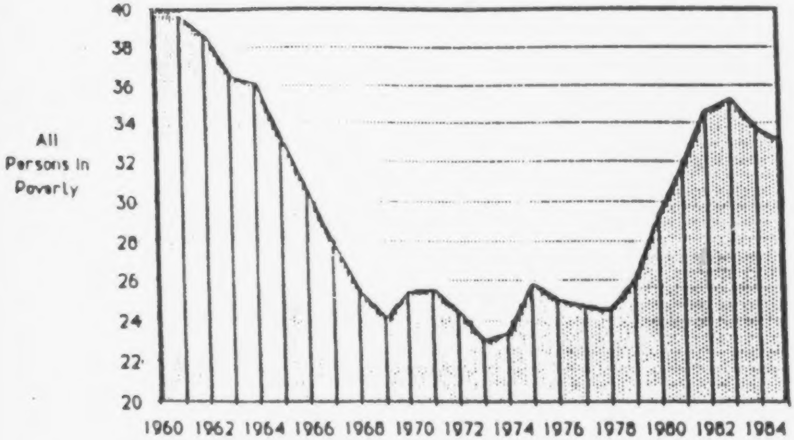
Exhibit 18

POVERTY TRENDS

Trends in the Number of People Below the Official Poverty Line

1960 - 1984

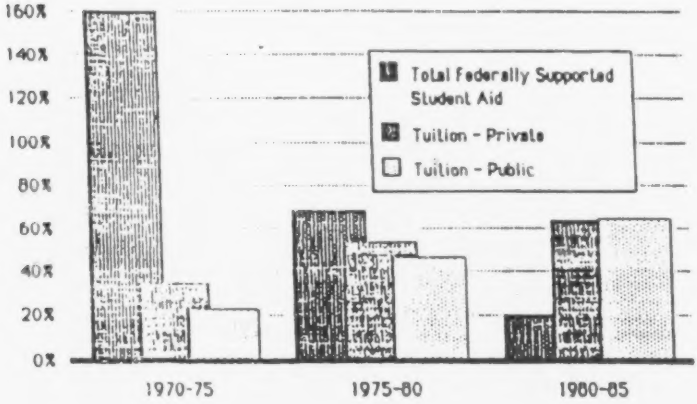
Millions



Source: U.S. Department of Commerce, Bureau of the Census, Current Population Reports. Series P-60.

Exhibit 19

COMPARISON OF INCREASES
IN
STUDENT AID AND TUITION CHARGES



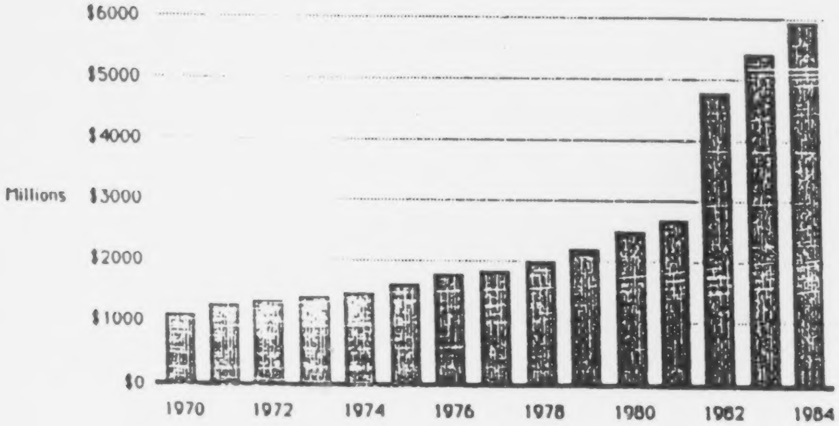
Source: Based on data from the Department of Education, Center for Education Statistics, Digest of Education Statistics: and the College Board, Trends in Student Aid, 1980-1986.

Exhibit 20

GROWTH OF INSTITUTIONALLY FUNDED STUDENT AID

Current Dollars

1970-71 to 1984-85

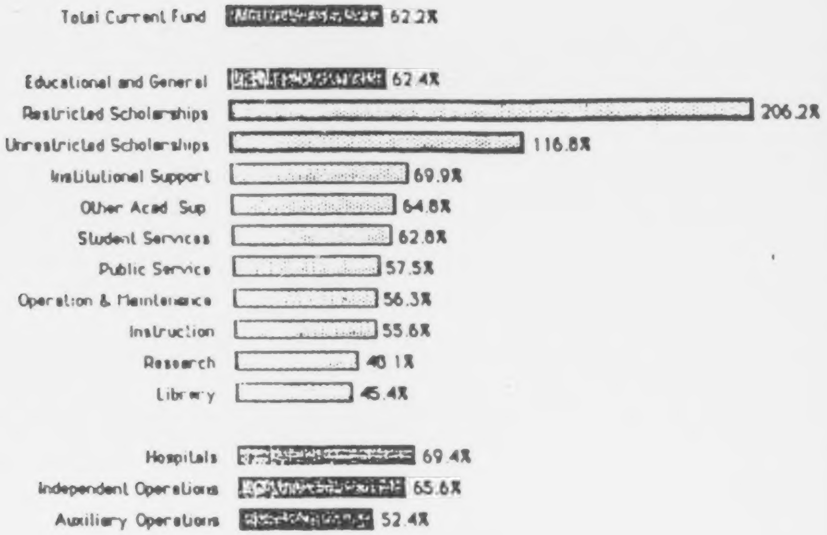


Source: Based on data from the U. S. Department of Education, Center for Statistics, Financial Statistics, annual editions.

Exhibit 21

TRENDS IN COLLEGE AND UNIVERSITY EXPENDITURES

Percentage Increase in Current Fund Expenditures: 1979-80 to 1984-85



Source: Based on data from the U. S. Department of Education, Center for Statistics, Financial Statistics, annual editions.

Chairman MILLER. Thank you.
Dr. Clay.

STATEMENT OF DR. PHILLIP L. CLAY, PROFESSOR OF CITY PLANNING, DEPARTMENT OF URBAN STUDIES AND PLANNING, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, CAMBRIDGE, MA

Mr. CLAY. Thank you very much.

In just about 18 months, we will celebrate the fortieth anniversary of Congress making a significant commitment to the American family. That commitment was that every family is entitled to a decent home in a suitable living environment. Almost 40 years after this commitment was made, we have made substantial progress, especially through 1980, toward meeting that goal. Still, however, there are 15 million families who are inadequately housed or not housed at all.

Let me cite a very short list of statistics which will support my point that housing is one of the major issues which concerns the American family. Housing is the transaction which almost all families are obliged to make, and it is the setting in which the family life is carried out.

During the 1980's, we had for the first time since President Johnson, a significant increase in the incidence of poverty, and this incidence has been particularly true among families with children, as other speakers have pointed out. We have also found that we have about 2 to 3 million persons who are homeless. This growth in the homeless population has been especially significant among homeless families.

All families with children have had a significant erosion in their income during this same period when housing prices, rents, interest rates, land prices, and other factors having to do with housing have leaped upward and remained at historic high rates.

We have also found that during the last 10 years, the first time in the last 40 years, we have had a significant erosion in housing opportunity at the same time when we have had little Federal attention to make the kinds of adjustments that were made at other points in our history.

We have also in the last few years added relatively few units to the resources which families have available, and we are at risk of losing some of the 4 million housing resources we have built up for the poor in the last 40 years.

I was asked to address two questions: First, what happened to the great housing opportunity engine that helped so many families improve their position since the administration of Franklin Roosevelt? Second, what might we do now to help families who are still inadequately housed?

But before I answer those questions, let me be very clear in contrast to what some of my other colleagues might suggest. I suggest that the issue of housing is not simply a lack of money. The experience with the Section 8 Certificate Program and with President Reagan's Voucher Program suggests clearly that even when poor families are given certificates that make it possible for them to pay the "fair market" rent, they still have difficulties. More than half of the certificates are returned in the first period after they are awarded. So I want to emphasize that the housing problems that families face are, first, housing problems and not some other kind.

Now to the question of, why can't we solve the housing problem the way we did it before? During the period between roughly the 1940's and the 1980's, we had three phases of American housing policy. The first phase, going back to 1937 and lasting until 1965, emphasized public housing. The Federal Government essentially helped local communities build housing to meet the need that the communities identified. We built about 1,300,000 units in that category. For a variety of reasons on which both liberals and conservatives, Democrats and Republicans, agreed, we essentially, starting in the mid-1960's, abandoned the Public Housing Program.

Between 1965 and 1975, or 1973, to be more exact, the President's moratorium, we moved toward a policy which relied on the private sector to provide housing to meet the needs of the poor, and to make that possible we provided them with various incentives.

In the second phase, between 1965 and 1973, we provided a relatively shallow subsidy along with a variety of tax benefits. We provided about a million units under various programs in that category.

Between 1975 and 1980, we were in the third phase of our housing policy in which we provided very deep subsidies along with generous tax benefits to the private sector to build housing for the poor. For a variety of reasons on which I need not dwell, we abandoned that approach.

What we have had since 1980 is no policy which was consistently pursued, which resulted in a significant yearly increase in the number of units, or which addressed the variety of trends which were significant during this period, ranging from the declining income of the poor, the increase in the number of homeless families, and so forth.

The second aspect of the question is: why can't we do housing the way we used to in terms of helping the poor? After looking at ways by which families have improved their housing situation in the past, I would suggest that there have been four options.

The first is, families can save and family members can help each other. The second is, families can accept filtered-down older units and fix them up. Third, they can accept public housing or assisted housing. Fourth, they can change their consumption goals or preferences. These options at different times and in different combinations have provided the opportunity for families to improve their housing situation, at least over time.

But I would submit to you, ladies and gentlemen, that all four of these ways are no longer helpful in improving the family's opportunities for housing improvement. On the savings side, it is clear, as other people have pointed out, incomes in real terms have gone down, the housing prices have gone up dramatically, and rents have gone up. The increases have been most serious in areas where families with poverty live.

We also know that in terms of the second situation—that is, families moving into older units—one of the ways that the middle class has accommodated to increasing prices in rents and interest rates and so forth has been to buy older housing, so the poor now do not have full access to older housing that they used to have, because that housing is now of interest to the middle class and even the upper class. The poor are in competition with these groups for access to this housing. The poor lose in that kind of market competition. Even when they win, they win at the cost of significantly higher rents and insecure tenure.

We also know that we have not been building housing sufficient to match the increase in the number of households. During the 1970's, we added about 21 million households, but we only added 16 million housing units, and so about 20 percent of the housing needed to meet new household formation and other needs was taken by existing units.

The third means by which families have improved their housing situation is through public housing and assisted housing programs. During the 1970's, we added about 300,000 units per year in the various programs, and in the early part of that decade we added significantly more. We have averaged less than 100,000 units so far during the decade of the 1980's even as we have had a significant increase in the incidence of poverty and the incidence of family homelessness.

Finally, families have been able to improve their situation by changing their preferences, by aspiring for less, by taking smaller units than they would otherwise find desirable. But I would submit to you, members of the committee, that changing preferences is really a temporary solution. It is acceptable only when there is the prospect that by some of the other means I mentioned that one's housing situation will improve shortly. We are at a point where I do not believe that families, especially poor families, have reason to believe that their situation is going to improve shortly.

What I would suggest finally is that we need a Phase Four policy, and I am encouraged by two things: first, the interest on the part of the Members of Congress to take a look at housing for the first time in some years, and, second, by the attention, at least in the early part of this presidential campaign in both parties, to give attention to the concerns of families and children. I think both of these trends will be helpful.

For housing I would suggest the following broad elements to be included in a housing policy. The first is that we need a production program to address the shortfall in units which I mentioned. I think in some places such construction might not be as important and that housing vouchers might be adequate.

I would also suggest that fair housing should address the issue of discrimination against families with children. I would want to point out that families are competing with non-families for scarce rental units, and when that competition occurs many landlords prefer not to have families with children and, instead, select single people. So fair housing ought to extend its umbrella to include families with children as a protected group.

I would also suggest that we try to preserve the units which are available as resources for the poor and to strengthen community-based efforts at self help, at community building, and in public-private partnerships. Thank you very much.

[Prepared statement of Phillip Clay follows:]

PREPARED STATEMENT OF DR. PHILLIP L. CLAY, PROFESSOR OF CITY PLANNING, DEPARTMENT OF URBAN STUDIES AND PLANNING, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, CAMBRIDGE, MA

THANK YOU MR. CHAIRMAN.

I am grateful for the opportunity to address housing issues facing American families. I will offer some perspectives on the nature of the problem and some suggestions for how to address these problems which I would characterize as serious.

Introduction

We are just 18 months away from the 40th anniversary of the Congress making a historic commitment to the American family. Specifically, the congress passed the Housing Act of 1949 that stated that it is the policy of the United States that every American family have " ... a decent home ... in a suitable environment."

After almost forty years, we have made substantial housing progress and we are well below the one-third of the population that was ill-housed at the end of World War II. We still have a long way to go, however, as millions are still inadequately housed or to an increasing extent, not housed at all.

I sense from Congressional activity in this session that we are at one of those critical points where we search for new ideas that will be subjected to the Congressional process and critical review and in some fashion become the next federal strategy for housing.

The Housing Problem for Families

Let me first, put the housing problem of families in some perspective.

- During the 1980s we have had a major increase in the incidence of poverty among households -- from just under 12 percent in 1970 to more than 15 percent in 1986. Federal programs that in the 1970s sparred nearly 20 percent of families that would have otherwise been poor have been cut to the point that such programs now help only 1 in 9 families avoid poverty. There has been a 47% increase in the percentage of families with children who have incomes below the poverty line from 11% in 1973 to 17% in 1983 (using 1983 constant dollars.) This higher incidence of poverty has remained steady despite economic recovery.

- About 12-14 million families are presently ill-housed, that is they live in a substandard units, are crowded, or pay more than 30% of their income for housing.
- An estimated 2-3 million persons are homeless. The largest and most rapid growth in this population has been homeless families.
- All families with children (except those in the top fifth of the income distribution) have lost income (in constant dollars) during the 1980s. For all families this amounts to 7%, but for families with below median incomes, this loss has been three to six times this much. During the same period, housing prices, rents, interest rates and other housing cost factors have leaped forward and remained at historic high levels.
- With this increasing poverty, growing evidence of a housing problem, we have, for the first time in recent history no policy to address these needs. We presently produce less than 100,000 assisted units each year compared to more than 300,000 units per year during the 1970s.
- For the first time this decade, the steady march toward homeownership has come to a halt. We have now a decade in which the ownership rate has actually declined from 66 to 64 percent after a steady 40 year climb; for young families (headed by persons age, 25-34), the rate decreased 7 percent between 1980 and 1985 alone, from 59 percent to 55 percent. This figure includes many middleclass as well as workingclass families. The dream of ownership is hard to sustain, much less realize. For poor families, less than 20 percent can afford ownership, and then only marginal units and mobile homes.

I could go on with the statistics, but suffice it to say that not only have families with children found it more difficult to improve their housing status, housing is a problem for families that has broadened and deepened during this decade, affecting not just the poor but even middle income families.

In my remaining time, I want to address two questions. First, what happened to the great opportunity engine that helped families make great progress between WWII and 1980? Why is it not working now? Second, what do we need to do address the housing needs of families.

Before turning to these questions, I want to emphasize that the problem in housing is not that the families need more money. We know from the experience with the Section 8 Certificate Program, for example, that when ability to pay the rent is not an issue, most poor families with certificates still have a housing problem. Money is important, but the housing problem is, first and foremost, a housing problem, not an income problem. This point applies to the poor, moderate income, and even middle income families. Indeed many families now face the housing markets with more resources than their parents had at a comparable point in their housing career.

Why Can't We Solve the Housing Problems The Way We Used To?

The first part of the answer to this question is that we have not as a nation really tried to address housing problems during the 1980s. It has been 7 years since congress has taken a look at housing and attempted to correct problems or update programs. A few demonstration and pilot efforts represent the only initiatives offered in recent years.

This is in contrast to several decades when congress directed housing policy in specific directions to address contemporary housing concerns. This is the longest period in 40 years when the most significant transaction affecting families has gotten so little support despite an escalation of the problem. I make this statement despite tax cuts and tax reform which, in fact, have combined to hurt our efforts to provide affordable housing.

There have been three distinct phases to U. S. housing policy. In these phases which go back to the 1940s, we constantly sought to remove roadblocks to improving the nation's housing supply. In the first phase, we instituted a public housing program and put a national mortgage system in place. We offered homeownership benefits to young families and veterans with FHA and VA programs. We created tax incentives and preferences to encourage housing development and consumption.

In Phase 2, starting in the mid-1960s, we brought the private sector in to produce better designed housing and to focus on housing for those who like many families now, have income that is just too low to get decent housing. We made a very modest effort at rebuilding urban communities with new housing on urban renewal land. We initiated efforts to help poor families buy homes. Moreover, we expanded tax incentives and created a national market for housing instruments and encouraged state and local community planning.

In Phase 3, from 1975 to 1980, we built new housing with deep subsidies to the poor. We also focused attention on rehabilitation and neighborhood conservation. We increased and enhanced tax preferences related to housing. We increased local discretion in program development with block grant programs and started the deregulation of financial institutions in the hope that it would bring more capital for investment in housing.

These efforts in the various phases were never perfect. In fact each sought to take care of previous flaws and oversights. Since 1981, we have had an adminstration that has sought not to fix the ship, but rather to abandon the ship.

I might also address the question of what has changed in another way. That is to look at what was available to families as options in the past, how these options worked and where we stand with them today.

Traditionally families have had 4 options to address their housing needs and goals: savings and family assistance, filtering down of older units, accepting public or assisted housing, or changing consumption goals and preferences. These options, at different times and in different combination overtime, helped most families, including poor ones become better housed. That is how it used to work. Why can't it work that way now?

First, saving is not a potential route for many households. Not only has the cost of housing gone up faster in recent years than the return on savings, families have had less real income from which to save. Moreover, the ability to finance home purchase with low downpayment have run up against the realities of housing finance and declining economic fortunes for poor and workingclass families. In recent years, the metaphor for families has not been "building a nestegg," but "getting on the (housing) train efore its leaves the station." The overconsumption or peculative behavior on the part of some to "get aboard" the ousing train inflate prices and make it difficult for thers get adequate shelter.

Second, families used to be able to improve their ousing situation by taking units that were left by higher ncome people moving into new housing. Over a number of oves, the less well off family would be able to improve the ousing within limits of their income. The situation is uite different now. The demand for housing which used to be eet, in net terms, by new construction, in recent year, has een met to the extent of 20% - by older housing. In other ords, the poor have to compete with the non-poor for older nits. Not only do the poor and families, especially, often ose to condo conversions and gentrification, when they win, t is at the cost of higher rents and less secure tenure.

Nor is it simply the case that poor families are ompeting with nonpoor families. It is, in part, a matter of he families competing against non families for housing. Our ousing markets in cities increasingly are dominated by ingle people and couples, not families. These nonfamily ouseholds have higher incomes or more workers but without he obligations that families have. They are able and illing to spend more for housing or to take advantage of the ituation by investing in housing, making shelter even more ike a commodity. Families, especially the growing roportion headed by women, cannot compete.

Third, families used to have access to a variety of ublic and assisted housing programs. These programs were ritical as temporary way stations and for many as a ermanent subsidy. The units -- greater than 300,000 a year n the 70s -- not only were a direct response to need, but ndirectly helped to relieve pressure on the nonsubsidized tock. All of these programs now have long waiting lists hat continue to grow and with it the pressure in the private arket.

Finally, the households have been willing to change heir preferences by aspiring for less, at least temporarily. hanging preferences is only an option when progress is in he wind. It is now more an option for single individuals han for families. Families need space for their children nd family life. It is not appropriate for a family to hoose bad housing in order to save, nor is crowding cceptable for longtime. Suffering is bearable when one sees edemption or reasonable hope thereof.

In short, the old tools for upward mobility in housing o not work effectively today. Families are not in a position to engage in self-help and we have little at the federal level to help them. While some cities and states have been creative, only a small number of families in a limited number of places have benefited .

New Directions for National Housing Policy

It is not appropriate here to go into detail about housing programs. Part of the anguish in Washington and elsewhere in the country is that we have a list of problems and concerns but no way to address them. My view is that we need to develop a Phase 4 policy. We cannot continue without a national housing policy if for no other reason than we will make negative progress.

Taking account of all of the lessons I have learned from looking at the history of housing policy as well as the present situation, I do not think we can have a single grand program, nor should we assume that the federal government should take sole responsibility. We need many initiatives which should be pursued in partnership with state and local government and with the nonprofit sector.

My suggestion for elements of a Phase 4 include the following:

- A production program for public and assisted housing that offers the prospect of permanent and affordable benefit. The program should be targeted to tight markets and to areas where new supply is needed.
- A continuation of vouchers for the poor and for families in markets where there are available units.
- Increased fair housing that prevents the kind discrimination against families that is so widespread now and that constitutes an additional barrier for families.
- An effective means to conserve the supply of public and assisted housing which will be at increasing risk over the next decade.
- Incentives and programs to encourage the private production of affordable private housing.
- Programs to develop greater capacity for nonprofit and community-based housing initiatives that can tap community spirit, promote self-help and facilitate public-private partnerships.

Conclusion

I welcome the current interest in the congress that recognizes that many of the problems from the 60s and 70s are still with us. In believe that in cities and communities across the country, there are ideas that when given a fair hearing will be compelling, budget constraints, notwithstanding. I am grateful for the opportunity you have given me and am happy to answer your questions.

Chairman Miller. Thank you.

Dr. Chollet.

STATEMENT OF DEBORAH J. CHOLLET, PH.D., SENIOR RESEARCH ASSOCIATE, EMPLOYEE BENEFITS RESEARCH INSTITUTE, WASHINGTON, DC

Ms. Chollet. Good morning.

I would like first to introduce my institutional affiliation. The Employee Benefit Research Institute is a nonpartisan, nonprofit, public policy research organization, and we do not take positions on public policy issues.

I am pleased to appear before the committee today to discuss trends in health insurance coverage among children and families with children. As Cathy Schoen mentioned, the number of nonelderly Americans without health insurance has increased by more than 15 percent since 1982. In 1985, more than 17 percent of the nonelderly population and 20 percent of children were without health insurance of any type.

The rising rate of noncoverage is first a problem for the uninsured who may have no access to needed health care except on an emergency basis. It is also a problem for many hospitals and physicians since the cost of caring for patients who are unable to pay is unevenly distributed. It is a problem for employers, and especially smaller employers who pay much of the shifted cost of care provided to uninsured patients. The high and rising cost of health insurance, in turn, discourages many small employers from offering health insurance as a benefit and prohibits many families from purchasing individual coverage.

The rising number of nonelderly people without health insurance is directly related to the erosion of employer-based coverage among workers and their dependents. While employment has risen substantially since 1982, a recession year with high unemployment, the number of workers with health insurance as an employee benefit has risen relatively slowly. As a result, the proportion of all workers with employer-based health insurance has declined from 78 percent in 1982 to 76 percent in 1985.

Much of the decline in the rate of employer-based coverage among workers is apparently due to the changing industry composition of employment in the United States. Since 1982, employment in industries with historically low rates of employer health coverage, including retail trade, construction, and business services, has risen more than four times as fast as employment in industries with historically high rates of coverage, including manufacturing, transportation, and professional services. The continuation of this trend toward faster employment growth in low-coverage industries may result in a continuing dwindling of the proportion of the population covered by employer plans.

The erosion of employer coverage in the United States has been more dramatic among dependents of workers, and especially among children, than it has been among workers themselves. Although the proportion of workers covered by an employer plan has declined since 1982, the number of workers covered by an employer plan has risen, albeit slowly.

However, both the number and the proportion of children covered by employer plans have declined. Employer plans actually covered one million fewer children in 1985 than in 1982. At the same time, the number and proportion of children with other private coverage also fell. As a result, the number of privately-insured children in the United States fell by more than two million between 1982 and 1985, and the number of uninsured children, children without private coverage and ineligible for public programs like Medicaid, increased by nearly 16 percent. Currently, one of every five children is uninsured.

Several trends related to families with children suggest that the number and proportion of children without health insurance may, in fact, continue to grow. These include the growing number of children in low-income, single-parent families, the rising cost of health insurance, and the continuing erosion of Medicaid coverage among the poor.

The number of children in the United States living in single-parent families is higher than ever before and may continue to grow. In 1985, nearly 27 percent of all children under age 18 lived in single-parent families. Children in single-parent families are five times as likely as children in two-parent families to be poor and more than twice as likely to be insured. In 1985, one-half of all children in single-parent families were poor, and one-third were uninsured.

In part because of the growing number of single-parent families, the number and percent of children in poverty is significantly greater now than at the beginning of the decade. Between 1979 and 1985, the number of people in poor families with children rose 25 percent. Currently, more than one-fifth of all people in families with children are poor.

Concurrently, the costs of health care and health insurance have been increasing at an average annual rate of 9 percent, faster than the cost of other consumer goods and services and faster than average family income. The declining income status of families with children and rising price of health insurance have probably both contributed to the decline in private, nonemployer insurance among children.

Finally, the erosion of Medicaid coverage among the poor and Medicaid's exclusion of the working poor may be important factors in further eroding the rate of health insurance coverage among children. Only about one-half of all poor children qualified for Medicaid in 1985. Among poor children without private insurance, one-third failed to qualify for Medicaid. The very low level of qualifying income that many States use to determine AFDC and Medicaid eligibility is an important factor in the failure of many poor children to qualify for Medicaid benefits. In 1986, half of all States accept qualifying income for AFDC and Medicaid at less than 48 percent of the Federal poverty standard.

Among all children in the United States, however, the children of the working poor are the most likely to be uninsured. Among poor children in families headed by a full-year worker, nearly half, 46 percent, were uninsured in 1985. Poor children living in families headed by a full-year worker are less likely to be insured than those in part-year worker families and much less likely to be uninsured than poor children in nonworker families. This pattern is largely the result of much lower rates of Medicaid coverage among families of the working poor.

In summary, at least four trends suggest that paying for health care is a growing problem for families with children. First, the rate of employer coverage among workers and their dependents is dwindling, apparently as a result of a changing industry distribution of employment. Second, the number and proportion of children in poverty is rising, in part precipitated by the increasing number of single-parent families. Third, the cost of health care and health insurance is high and continues to rise faster than average family income. Finally, the level at which States set qualifying income for AFDC and Medicaid may continue to erode. As a result, Medicaid is likely to cover a declining proportion of poor families with children and continue to systematically exclude the working poor.

Thank you for the opportunity to appear before you today to discuss these issues, a growing problem.

[Prepared statement of Deborah J. Chollet follows:]

PREPARED STATEMENT OF DEBORAH J. CHOLLET, PH.D., SENIOR RESEARCH ASSOCIATE, EMPLOYEE BENEFITS RESEARCH INSTITUTE, WASHINGTON, DC

Introduction

In 1985, 37 million nonelderly Americans reported no health insurance coverage from any source; of these, nearly 35 million were adults and children in civilian, non-farm families.[1] The number of people without health insurance in these families has risen nearly 15 percent since 1982. The most rapid erosion of coverage has occurred among workers and children. The number of uninsured workers without health insurance coverage grew more than 22 percent between 1982 and 1985; the number of uninsured children under age 18 grew nearly 16 percent. In 1985, nearly 20 percent of all children under age 18 had no health insurance coverage from any source. These data are reported in Table 1.

The erosion of health insurance coverage among the nonelderly population is a matter of concern both for private industry and public policy. People without health insurance coverage or other obvious means of payment have difficulty obtaining access to needed, nonemergency medical care. When this population does receive care and is unable to pay, health care providers--hospitals and physicians--are likely to shift the costs of their care to privately insured patients in the form of higher charges.

Employers, who are the primary source of private insurance coverage among

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[1] Unless otherwise indicated, all data are based on EBRI tabulations of the March 1986 Current Population Survey conducted by the U.S. Department of Commerce, Bureau of the Census. Many of these tabulations are also presented in: "A Profile of the Nonelderly Population Without Health Insurance," EBRI Issue Brief No. 66 (May 1987).

Table 1

The Number and Percent of the Civilian Nonagricultural Population[a] Without Health Insurance in 1985, and Growth between 1982 and 1985

Work Status	1982 Number (millions)	1982 Percent	1985 Number (millions)	1985 Percent	Percent Increase 1982-1985
Total uninsured	30.3	15.6%	34.8	17.4%	14.9%
Workers	13.9	12.8	17.0	14.7	22.5
Family head[b]	8.2	12.5	10.2	14.4	24.0
Other workers	5.6	13.4	6.8	15.3	21.1
Nonworkers	16.4	19.1	17.8	21.0	8.3
Children[c]	9.6	17.0	11.1	19.7	15.6
Adults	6.8	23.1	6.7	23.9	-1.8

Source: EBRI tabulations of the March 1983 and March 1986 Current Population Surveys (U.S. Department of Commerce, Bureau of the Census).

[a] Data exclude people under age 65 employed in the military or in agriculture and members of their families.

[b] The family head is the family or subfamily memeber with the greatest earnings; all other family members with earnings are designated as secondary workers. Family-head workers include unrelated individuals that are workers.

[c] People under age 18 that reported no earnings and were not the family head.

the nonelderly population, have sought to avoid this so-called "hidden tax" on privately insured health care by negotiating charges with providers. As employer manage their health plan costs more rigorously, health care providers are less able to finance free care for people that are unable to pay. This, in turn, may further reduce access to care for uninsured population. Providers may also intensify cost-shifting to smaller employers who are unable to negotiate provider discounts. The high cost of coverage available to small employers, in turn, discourages many small businesses from offering health benefits to their workers. In 1983, two-thirds of all workers without health insurance benefits from their own employer were either self-employed or employed in firms with fewer than 25 employees.

In poor and near-poor families that have no private insurance and do not qualify for Medicaid, routine health care (including prenatal care) may be seriously neglected. Research on health services use among people without health insurance has repeatedly found that uninsured people use much less health care than people with insurance, even when health status or medical conditions are similar.

The Erosion of Private Health Insurance Coverage

The declining proportion of workers and their dependents covered by employer-sponsored health insurance is an important factor in the growing number of nonelderly people without health insurance. In 1982, employer plans provided health insurance for more than 67 percent of the nonelderly population; this percentage declined to 65 percent in 1984, and edged up to 66 percent in 1985.

Employer plans have covered a growing number of workers since 1982; in 1985 employer plans covered 88 million workers, compared to 84 million in 1982. Nevertheless, the number of workers without employer-sponsored health insurance has risen much faster than the number with employer coverage. As a result, the proportion of all workers with employer-sponsored health insurance has eroded--from 78 percent in 1982, to 76 percent in 1985. The number of nonworker dependents covered by employer plans has actually declined. In 1982, employer plans covered more than 47 million nonworkers, including 36 million children. In 1985, employer plans covered 44 million nonworkers, and fewer than 35 million children.

Coverage from other private insurance (principally individually purchased coverage) has also declined since 1982. Again, the decline in coverage is most apparent among children. In 1982, nearly 13 percent of the nonelderly population and nearly 9 percent of children reported nonemployer private coverage; in 1985, less than 12 percent of the nonelderly population and 7 percent of children reported coverage from such a plan.

The decline in employer-sponsored coverage among workers and their dependents parallels the redistribution of employment in the United States. Since 1980, employment in industries with historically low rates of employer coverage (including retail trade, construction, and business services) has grown more than four times as fast as employment in high-coverage industries (see Table 2). Relatively fast employment growth in low-coverage industries (particularly in retail trade, and business and personal services) is likely to continue; this trend may further erode the rate of employer-sponsored health insurance among workers and their families in future years.

Noncoverage Among Children

The relatively high and growing proportion of children without health insurance is a matter of particular concern. In 1985, 20 percent of all children under age 18 were uninsured. The reasons for growing noncoverage among children probably include: (1) the growing number of low-income, single-parent families with children; (2) the cost of health insurance; and (3) the erosion of Medicaid coverage among the poor--including poor families with children.

The growth of single-parent families. The rising number of low-income, single-parent families has probably contributed to the growing rate of noncoverage among children. In 1985, nearly 27 percent of all children under age 18 lived in single-parent families; among children in poverty, nearly two-thirds (65 percent) lived in single-parent families.

Children living with a single parent are more than twice as likely as children in two-parent families to be uninsured. In 1985, one-third (33 percent) of all children in single-parent families were uninsured from any source, compared to 14 percent among children in two-parent families (see

Table 2

Total Nonagricultural Civilian Employment, Rates of Employment Growth and Employer-based Health Insurance Coverage by Industry, 1985

	1985 Employment			
Industry	Number of workers (thousands)	Percent of all workers	Rate of employment change 1980-1985	Percent of workers with employer health plan, 1985[b]
All workers	103,163	100.0%	8.3%	75.8%
	High-coverage industries			
Mining	939	0.9%	-4.1%	88.8%
Manufacturing	20,879	20.2	-4.8	88.2
Transportaion, communication and public utilities	7,548	7.3	15.7	87.5
Finance, insurance and real estate	7,005	6.87	16.9	86.1
Wholesale trade	4,341	4.2	10.7	84.1
Professional and related services	21,563	20.9	8.6	81.7
Public administration	4,995	4.8	-6.5	87.6
Total, high-coverage	67,270	65.2%	4.2%	85.6%
	Low-coverage industries			
Construction	6,987	6.8%	12.4%	66.2%
Retail trade	17,955	17.4	10.4	63.7
Business and repair services	5,321	5.2	60.6	66.0
Personal services	4,352	4.2	13.4	50.3
Entertainment and recreation	1,278	1.2	22.1	59.4
Total, low-coverage	35,893	34.8%	17.0%	62.9%

Source: EBRI tabulations of the March 1986 Current Population Survey (U.S. Department of Commerce, Bureau of the Census); and U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1987, p. 388.

[a] Excludes agriculture, forestry, fisheries, and miscellaneous services.

[b] Includes wage and salary workers; excludes self-employed workers.

Table 3).

The high rate of noncoverage among children in single-parent families largely reflects the high proportion of single-parent families that are in poverty. In 1985, more than one-half (55 percent) of all children in single-parent families were poor. By comparison, the poverty rate among children in two-parent families was 11 percent.

Among all children in the United States, children of the working poor are the most likely to be uninsured. Among children in poor families headed by a full-year worker, nearly one-half (46 percent) were uninsured. The high rate of noncoverage among poor children in worker families is the same whether the family is headed by a single parent or by two parents.

Lower coverage among poor children in families of full-year workers reflects much their lower rate of Medicaid eligibility, compared to children in families headed by a nonworker or by an adult that works seasonally or intermittently. In 1985, poor children in single-parent families headed by a full-year worker were less than half as likely as children in a nonworker single-parent family to have Medicaid coverage (35 percent, compared to 77 percent). After adjusting for the somewhat higher rate of employer coverage among poor children in two-parent worker families, the difference in Medicaid coverage between nonworker and worker families is comparable to that observed among children in single-parent families.

The cost of insurance coverage. The declining rate of private insurance

Table 3

The Percent of Children with Health Insurance Coverage from Various Sources, by Family Type, Work Status of the Family Head, and Poverty Status, 1985

Family Type/ Work Status of Family Head[a]	Number of Children (millions)	Private Insurance		Public Insurance		Uninsured
		Total Private	Employer Coverage	Total Public	Medicaid	
All Children						
Total	55.4	67.1%	62.0%	16.0%	14.1%	19.5%
Spouse present	40.6	80.7	75.8	7.5	5.4	14.4
Full-year worker	38.4	83.4	79.2	5.5	3.5	13.6
Part-year worker	1.0	51.4	35.6	20.1	15.7	33.5
Nonworker	1.1	13.4	-	64.6	60.0	25.9
Spouse absent	14.8	29.8	24.2	39.4	37.8	33.4
Full-year worker	8.1	47.0	40.8	15.7	14.1	40.3
Part-year worker	1.9	22.5	14.1	51.6	49.3	31.2
Nonworker	4.9	3.5	-	75.0	73.7	22.6
Children in Families Below Poverty						
Total	12.6	17.0%	12.4%	52.7%	51.5%	33.4%
Spouse present	4.4	30.4	24.7	33.5	31.8	39.9
Full-year worker	3.2	36.8	32.0	22.3	21.1	45.0
Part-year worker	0.4	30.3	18.5	38.1	34.3	37.5
Nonworker	0.9	b	-	73.5	70.7	22.1
Spouse absent	8.2	9.8	5.7	63.2	62.2	29.8
Full-year worker	2.2	21.5	14.5	36.4	35.5	46.2
Part-year worker	1.5	14.6	9.4	60.4	58.8	30.7
Nonworker	4.5	2.3	-	77.5	76.7	21.2

SOURCE: Employee Benefit Research Institute tabulations of the March 1986 Current Population Survey (U.S. Department of Commerce, Bureau of the Census).

[a] Data exclude people under age 65 employed in the military or in agriculture and members of their families. The family head is the family or subfamily memeber with the greatest earnings; all other family members with earnings are designated as secondary workers. Family-head workers include unrelated individuals that are workers. Full-year workers are defined as workers that were either employed or sought work for 35 weeks or more during 1985.

[b] Statistically insignificant.

coverage among children--and the growing rate of noncoverage--probably also reflects the rising cost of both employer-sponsored health insurance and individually purchased insurance.

In 1985, nearly 20 percent of uninsured children lived with a parent (or, rarely, a spouse) with coverage from an employer plan. Employer plans typically allow workers to include dependents. Increasingly, however, workers are required to contribute all or part of the cost of coverage for dependents. In 1985, 54 percent of larger-establishment workers that participated in an employer health plan were required to pay all or part of the cost for dependents' coverage. The surprisingly high proportion of uninsured children living with an employer-insured parent may be related to the worker cost of coverage for dependents. Nevertheless for some (perhaps one-third of insured children living with an employer-insured parent or spouse), the level of family income ($30,000 or more in 1985) suggests that an employee contribution for coverage might have been affordable.

Data that measure the cost of individual insurance coverage are unavailable. It is likely, however, that the cost of individual coverage is rising at least as fast as the cost of health care as a whole. Between 1980 and 1985, the cost of health care (as measured by the medical care component of the consumer price index) rose nearly 52 percent--an average annual rate of nearly 9 percent. At the same time, the proportion of families with children in poverty rose from 10 percent to nearly 13 percent. Persistent increases in the cost of health care and health insurance, coupled with the declining income status of families with children, have probably contributed to the erosion of private insurance coverage among children.

Medicaid. Medicaid is a federal-state program that finances health care services for, among other categorically eligible groups, children under age 18. In 1985, however, only about one-half (51 percent) of children living in families with income less than the federal poverty standard reported coverage from Medicaid; 34 percent reported no coverage from any source. Among children living in near-poor families (between 100 percent and 125 percent of the federal poverty standard), 13 percent reported Medicaid coverage; 37 percent reported no coverage from any source.

The relatively low rate of Medicaid coverage among children in poverty is in part due to the erosion of qualifying income for AFDC benefits relative to the federal poverty standard. AFDC (Aid to Families with Dependent Children) is a federal-state cash assistance program that automatically confers Medicaid eligibility. Most children who qualify for Medicaid benefits do so through the AFDC program. Each state determines the income ceiling that qualifies categorically eligible families in that state for AFDC benefits.

No state automatically indexes qualifying income to the cost of living. As a result, qualifying income in most states has eroded relative to the federal poverty standard. In 1975, the states' average qualifying income for AFDC was 71 percent of the federal poverty standard; one-half of all states set AFDC qualifying income at more than 79 percent of poverty. In 1986, average (and median) qualifying income for AFDC benefits was less than half the federal poverty standard (48 percent). As a result, many poor families with children fail to qualify for either AFDC or Medicaid.[2]

Summary and Concluding Remarks

Speculating about the future is generally a hazardous undertaking, and speculating about families' future ability to finance health care is not different. Since most private insurance coverage is provided by employer plans, the rate of employment is an important factor in explaining the rate of insurance coverage among workers and among dependent children. In general, one would expect an expanding economy to improve rates of insurance coverage among workers and their families.

This expectation, however, is contradicted by recent history. Despite significant employment growth since the 1981-1982 economic recession, rates of employer coverage have declined--especially among families with children. In 1985, employer plans covered fewer children, absolutely and as a percent of all children, than they did in 1982. Reasons for this apparently include a redistribution of employment toward industries that historically are less likely to provide health insurance as an employee benefit. In addition, employment in small firms may be rising faster than employment in large firms. If the faster expansion of employment in low-coverage sectors continues, the aggregate rate of employer coverage among workers and their dependents may continue to decline.

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[2] In Texas, for example, a family of three with a monthly income of $185 in 1986 would have failed to financially qualify for AFDC and Medicaid.

Other trends related to families with children also suggest that the loss of insurance coverage among children, in particular, may continue. The growing number of low-income single-parent families may be an important factor in further reducing the number and proportion of children with health insurance. Children in single-parent families are five times as likely as children in two-parent families to be poor, and more than twice as likely to be uninsured.

In part because of the growing number of single-parent families, the number and percent of families in poverty is significantly greater now than at the beginning of the decade. Between 1979 and 1985, the number of people in poor families with children rose 25 percent, and the proportion of families with children that are poor rose by four percentage points: more than one-fifth of all people in families with children are poor. Concurrently, the cost of health care and health insurance have been increasing at an average annual rate of more than 9 percent--faster than the cost of other consumer goods and services, and faster than average family income. The eroding ability of families to buy health insurance is reflected in the loss of private, non-employer coverage among children since 1982.

Finally, the erosion of Medicaid coverage among the poor and Medicaid's exclusion of the working poor may be important in the continuing decline of insurance coverage among children. Only about half of all poor children qualify for Medicaid; more than one-third of poor children without private insurance coverage failed to qualify for Medicaid and were uninsured throughout the year. The low levels of qualifying income that many states set for AFDC and, therefore, Medicaid eligibility is probably an important factor in the failure of these children to qualify for Medicaid. Although the 1984 Deficit Reduction Act (DEFRA) and the 1985 Consolidated Omnibus Reconciliation Act (COBRA) expanded Medicaid coverage for poor children (currently, children under age 8) and pregnant women, further erosion of the qualifying income for AFDC benefits established by most states is likely to continue to depress Medicaid coverage among poor families with children.

The low rate of Medicaid coverage among the children of workers in poverty suggests that there is virtually no insurance option for low-income working families with children, if they do not have access to an employer health plan. The rate of noncoverage among children living with one or more working parents in poverty is extremely high--nearly half had no coverage from any private plan or Medicaid in 1985. Without access to Medicaid, these families are largely without access to insurance coverage of any type.

Various measures have been proposed to address private employer coverage among workers and their families and Medicaid coverage of the poor and near-poor. As a nonpartisan research organization, the Employee Benefit Research Institute does not endorse any particular proposal. However, each of these proposals, and others related to federal and state welfare reform, deserve serious consideration by the Congress and the public. Access to health care and responsible health care financing in the United States are issues of growing importance, and may be among the most critical issues for families in the future.

Chairman MILLER. Thank you.
Dr. Carlson.

STATEMENT OF ALLAN C. CARLSON, PH.D., PRESIDENT, THE ROCKFORD INSTITUTE, ROCKFORD, IL

Mr. CARLSON. Thank you, Mr. Chairman.

The economic status of the family in America is not particularly healthy in 1987, and this committee is to be commended for choosing to address the subject of American families in tomorrow's economy.

In looking at this subject, the temptation is strong to isolate one part of the problem, such as child care, project current trends into the future, place a frightening price tag on the costs involved, and turn to the Federal Government as the only institution capable of meeting the looming crisis. I urge this committee to resist such temptation.

Increased Government subsidization of now private family activities will not strengthen families. Indeed, the record in other nations and from earlier times shows over and again that the progressive socialization of early child care, housing, and education works, in general, to weaken the private family economy, to erode further the independence of families relative to Government, and to draw Government officials, often against their will, into what might be called lifestyle engineering.

More broadly, I believe that the real economic pressures on families today and in the future cannot be understood without attention to the rise and fall of the family wage ideal. Briefly put, a large number of social and political thinkers were convinced by the late 19th century that only payment of a family wage to male heads of households could solve the social ills of the time. Women were needed at home to care for the children, they said, and wages must be adjusted so that fathers would be paid on a family-sustaining basis.

These were not conservative cranks talking but, rather, the leaders of the labor movement, the progressive movement, a branch of the feminist movement, and the activist wing of the Democratic Party, including the New Dealers. Progressives and Social Democrats of the era agreed that measures must be speedily taken to remove married women and children from the factories and to pay fathers a sufficient amount to maintain a family of five. By 1925, a prominent economist reported, maintenance of a family of five had "come almost universally to be accepted as the test of adequacy of the wage of the adult male." For women, it was assumed, wages would be calculated only on an individual basis.

It is important to note here that the concept of a minimum wage in America emerged out of this very debate. Its size would be keyed ideally to the needs of a male worker supporting a wife and two or three children at home. Put another way, one-income families, not two-income families, was the base assumption, an important distinction relevant to today's earlier debate.

The American business community bitterly fought the family wage concept, labeling it, correctly, as an artificial restriction on the size of the labor pool and a stimulant to higher wages. Yet by the late 1920's the corporate community was in full retreat on the issue.

Eventually, business became effective at delivering family wages. According to one calculation, a hefty 65 percent of American jobs in 1960 paid enough to sustain a family of five in modest comfort. This development, it should be noted, was reinforced by positive Governmental acts, such as the 1948 increase in the personal income tax exemption to $600, a lofty sum given the wage scales of the era and one particularly beneficial to larger families.

Yet that family wage system, largely informal in nature, has since collapsed. Cause and effect are difficult to sort out, but the results are clear. It is no longer the unwritten law that American companies will strive to maintain wages at a level allowing a single wage-earner to support a family. Since the early 1950's, moreover, there has been a steady, if sometimes exaggerated, movement of married women into the paid labor market and a consequent readjustment of wage scales away from the family standard.

During the mid-1960's, legislation effectively made illegal the payment of a family wage only to male heads of households. By 1976, only an estimated 40 percent of American jobs paid a sufficient amount to sustain a family of five.

It is true that the middle class is not disappearing, but increasingly two incomes are necessary where one had sufficed. In addition, there is mounting evidence that our continued prosperity is being purchased by the avoidance of children. In a sense, we continue to live well by expending, or, more precisely, by failing to reproduce our human capital.

Much of the real stress that families now confront derives from this demise of America's family wage economy and our inability so far to construct an alternative. So what might be done to aid America's families in tomorrow's economy? I recommend turning to that distinctively American and historically successful form of social policy, tax credits and deductions keyed to number and age of children, which would allow families with children to keep more of their earned income when children are in the home.

Taken together, four steps would go far towards constructing a contemporary American version of a family wage economy, one focused in particular on delivering meaningful assistance to low and middle income families. They are: first, increase the personal income tax exemption, only for dependent children, to $4,000 per child; second, transform the existing child care tax credit into a universal credit at a set level available to all American families with preschool children under the age of 7, whether or not they use day care; third, transform the existing earned income tax credit into a universal dependent child credit available up to the total value of the parent's payroll tax; and, fourth, provide an additional dependent child credit of roughly $600 to families in the year of a child's birth or adoption.

Simple calculations of the full impact of such a plan on a sample family with three small children at varying income levels are presented in Appendix A to my written statement. When comparing this plan with provisions in place in 1988, a family of five with reported earnings of $25,000 would retain $4,300 more of their own income in that year, the maximum that any family with this structure would gain. A family earning $15,000 a year would retain almost $3,000 more than it does at present.

This plan would, in effect, deliver significantly more earned disposable income to families with dependent children without disrupting free wage markets, without depending on gender discrimination as the old family wage system did, without forcing an increase in taxes, without increasing the size of Government, without transforming families into a state-dependent class, without favoring any particular family structure, and without creating a policy vehicle that could be used as a lever for social engineering.

By allowing families with children to keep more earned cash in their own hands, this proposal leaves the provision of services such as day care and of goods such as housing largely to the free marketplace, where they should be. By placing faith in and responsibility with the private sector, this plan would enhance rather than restrict choices, encourage entrepreneurs rather than state planners, and reward innovation rather than political savvy.

Admittedly, this plan, if adopted in its entirety, would bear a high indirect cost in lost revenues. If an effective pro-family tax cut of this size cannot now be afforded, only certain parts of the plan might be implemented at this time. Or, as an alternative—and I commit heresy here—a modest tax increase in another revenue category might be considered.

Relative to family policy, the fundamental choice is a philosophical one. In the face of real economic stress among families, will we devise responses that will increase Government involvement in family life and restrict choices to those advanced by organized interests, or will we adopt measures that encourage free choices and rely on families themselves to control more of their earned income and to make decisions on the matters that interest them the most?

Thank you.

[Prepared statement of Allan C. Carlson follows:]

PREPARED STATEMENT OF ALLAN C. CARLSON, PH.D., PRESIDENT, THE ROCKFORD INSTITUTE, ROCKFORD, IL

The economic status of the family in America is not particularly healthy in 1987, and this committee is to be commended for choosing to address the subject of American families in tomorrow's economy.

I come before you today as President of The Rockford Institute, a non-profit research and publishing center, and as Director of the Institute's Center on the Family in America. My doctoral dissertation, awarded in modern European social and economic history, concentrated on the origins and content of Sweden's family policy in the 1930's, a policy constructed with family economic problems clearly in mind. Since receiving my degree, I have focused my research and writing on the family problem in America, the results of which have appeared in numerous scholarly and popular journals, and in a forthcoming book, FAMILY QUESTIONS.

In looking at the economic pressures on American families, now and in the future, the temptation is strong to isolate one part of the problem (say "child care"), project current trends into the future, place a frightening price tag on the costs involved, and turn to the government as the only institution capable of meeting the looming crisis.

I urge this committee to resist such temptation. Increased government subsidization of now-private family activities will not strengthen families. Indeed, the record in other nations and from earlier times shows over and again that the progressive socialization of early child care, housing, and education works, in general, to weaken the private family economy, to erode further the independence of families relative to government, and to draw governmental officials into what might be called "lifestyle engineering," where some private family choices are rewarded and subsidized (e.g. the use of day care) and others are ignored or penalized (e.g. the parental care of infants and small children).

More broadly, I believe that the real economic pressures on families today and in the future cannot be understood without attention to the history of the "family wage" ideal. Briefly put, a large number of social and political thinkers were convinced by the late 19th century that only payment of a family wage to male heads-of-households could solve the social ills of the time. Women were needed at home to care for the children, they said, and wages must be adjusted so that fathers would be paid on a "family sustaining" basis.

These were not conservative cranks talking, but rather the leaders of the labor movement, the Progressive movement, a branch of the feminist movement, and the activist wing of the Democratic Party. In 1898, for example, Samuel Gompers, President of the American Federation of Labor, claimed for male workers "a living wage--which when expended in an economic manner shall be sufficient to maintain an average-sized family."<1> Progressives and democratic socialists of the era agreed that measures must be speedily taken to remove married women and children from the factories, and pay husbands a sufficient amount to maintain a family of five. As Mary Anderson, head of the Labor Department's Women's Bureau under Franklin Delano Roosevelt, explained, the troubled family economy "could be taken care of if the provider for the family got sufficient wages. Then married women would not be obliged to go to work to supplement an inadequate income for the families."<2>

By 1925, a prominent economist reported, maintenance of a family of five had "come almost universally to be accepted as the test of adequacy of the wage of the adult male."<3> For women, it was assumed, wages need be calculated on an individual basis, since they commonly supported only themselves or worked to supplement the husband's wage.<4>

The American business community bitterly fought the "family wage" concept, labelling it (correctly) as an artificial restriction on the size of the labor pool and a stimulant to higher wages.<5> Yet by the late 1920's, the corporate community was in full retreat on the issue. Eventually, business became fairly effective at delivering a family wage. According to one calculation, a hefty 65 percent of American jobs in 1960 paid enough to sustain a family of five in modest comfort.<6> This development, it should be noted, was reinforced by positive government acts. In 1948, for example, a Democratic President and a Republican Congress agreed on an increase in the personal income tax exemption to $600 per person, a lofty sum given the wage scales of the era, and particularly beneficial to larger families. Housing policy in the same era, particularly the continued deductibility of home mortgage interest and the VA and FHA mortgage insurance programs, indirectly encouraged private home ownership and the rapid growth of the family-oriented suburbs. As President Harry Truman explained in 1949: "Children and dogs are as necessary to the welfare of this country as [are] Wall Street and the railroads."<7>

Yet that family wage system has since collapsed. Cause and effect are difficult to sort out, but the results are clear. It is no longer the unwritten law that American companies will strive to maintain wages at a level allowing a single wage-earner to support a family. Since the early 1950's, moreover, there has been a steady--if sometimes exaggerated--movement of married women into the paid labor market, and a consequent readjustment of wage scales away from the family standard. During the mid-1960's, legislation such as The Equal Pay Act and The Civil Rights Act effectively made illegal the "family wage" paid to male heads-of-household. By 1986, only an estimated 40 percent of American jobs paid a sufficient amount to sustain a family of five. The middle-class, it is true, is not disappearing. But increasingly, two incomes are necessary where one had sufficed. In addition, there is mounting evidence that our continued prosperity is being purchased by the avoidance of children: in a sense, we are living well by expending (or, more precisely, by failing to reproduce) our human capital.<8>

Much of the stress that families now confront--the huge "opportunity costs" facing young parents-to-be as they contemplate bearing and caring for a child, delays in age of marriage and first birth caused by economic uncertainty, the high direct and indirect costs of rearing children in a "two career" marriage--these derive from the demise of American's family wage economy, and our inability so far to construct an alternative.<9>

So what might be done to aid America's families in tomorrow's economy? As noted earlier, the temptation to socialize remaining family functions, and so increase families' economic reliance on the state, should be resisted. In order to save the family, we should not undermine it by increasing its direct dependence on governmental largesse.

Rather, I recommend returning to that distinctively American, and historically successful form of social policy: tax credits and deductions keyed to number and age of children, which would allow families with children to keep more of their earned income when children are in the home.

Taken together, four steps would go far toward constructing a contemporary American version of a family wage economy, one focused in particular on delivering meaningful, albeit indirect assistance to low-middle and middle income families. They are: (a) increase the personal income tax exemption, for dependent children only, to $4,000 per child; (b) transform the existing child care tax credit into a universal credit at a set level, (e.g. $500 per child to a maximum of $1500), available to all American families with pre-school children under the age of 7 whether or not they use day care (as a substitute for certain existing means-tested day care programs, it could be made refundable); (c) transform the existing Earned Income Tax Credit (currently available to the working poor with one or more children as an offset to the payroll tax) into a universal Dependent Child Credit of $600 per child, up to the total value of the parents' payroll tax (14.3 percent of salary up to $6,240, for employed persons); and (d), provide an additional Dependent Child Credit of $600 to families in the year of a child's birth or adoption.

Simple calculations of the full impact of such a plan on a sample family with three small children, at varying income levels, are presented in Appendix A. When comparing this plan with provisions in place in 1988, under the terms of the Tax Reform Act of 1986, a family of five with reported earnings of $25,000 would retain $4,300 more in that year (net income would exceed reported income due to the availability of $1,788 in payroll tax paid by the employer), the maximum that any family with this structure would gain. A family earning $15,000 per year would retain $2,946 more than it does at present (it would also still be eligible for food stamps). This level of tax relief would decline in subsequent years as children grew older, when no birth occurred in the given year, and as the family was no longer eligible for the Child Care Credit.

This plan would, in effect, deliver significantly more earned, disposable income to families with dependent children without disrupting free wage markets, without depending on gender discrimination (as the old "family wage" system did), without forcing an increase in taxes, without increasing the size of government, without transforming families into a state-dependent class, and without creating a policy vehicle that could be used as a lever for social engineering. The proposed program grants meaningful recognition to contemporary child care, educational, and health problems and grants maximum choice to parents, without discriminating against the family with a working mother, the family with a mother-at-home, or any other family structure.

By allowing families with children to keep more earned cash in their own hands, this proposal leaves the provision of services such as day care and of goods such as housing largely to the free marketplace, where they should be. By placing faith in and responsibility with the private sector, this plan would enhance rather than restrict choices, encourage entrepreneurs rather than state planners, and reward innovation rather than political savvy.

Admittedly, the plan--if adopted in its entirety--would bear a fairly high indirect "cost": $30-$40 billion in lost Federal revenues. If an effective "pro family" tax cut of this size cannot now be afforded, only certain parts of the plan might be implemented at this time: for example, doubling the personal exemption for dependent children, and expanding eligibility for the Earned Income Tax Credit and keying the latter to number of children. Or, as an alternative, a modest tax increase in another revenue category might be considered.

Relative to family policy, the fundamental choice is a philosophical one. In the face of real economic stress within families, will we devise responses that will, by intent or default, increase government involvement in family life and restrict choices to those advanced by organized interests? Or will we adopt measures that encourage free choices and rely on families themselves to control more of their earned income and to make decisions on the matters that interest them the most?

NOTES

1 From: James Boyle, THE MINIMUM WAGE AND SYNDICALISM (Cincinnati: Stewart and Kidd Company, 1913), p. 73.

2 Mary Anderson and Mary N. Winslow, WOMEN AT WORK: THE AUTOBIOGRAPHY OF MARY ANDERSON (Minneapolis: University of Minnesota Press, 1951), pp. 156-58.

3 Paul H. Douglas, WAGES AND THE FAMILY (Chicago: University of Chicago Press, 1925/27), p. 10.

4 On the family wage question, see: Martha May, "The Historical Problem of the Family Wage: The Ford Motor Company and the Five Dollar Day," FEMINIST STUDIES 8 (Summer 1978): 401-14; Heidi Hartman, "Capitalism, Patriarchy, and Job Segregation by Sex," SIGNS: A JOURNAL OF WOMEN IN CULTURE AND SOCIETY 1 (1976 Suppl.): 137-69; and Ali Zaretsky, "The Place of the Family in the Origins of the Welfare State," in Barrie Thorne, editor, RETHINKING THE FAMIY: SOME FEMINIST QUESTIONS (New York and London: Longman, 1982).

5 See: Albion Guilford Taylor, "Labor Policies of the National Association of Manufacturers," UNIVERSITY OF ILLINOIS STUDIES IN THE SOCIAL SCIENCES 15 (March 1927).

6 Noted in: Christopher Lasch, "What's Wrong with the Right," TIKKUN: A QUARTERLY JEWISH CRITIQUE OF POLITICS, CUTURE & SOCIETY 1 (1987).

7 Quoted in: "Housing Gets No. 1 Spot at Family Life Conference," THE CHRISTIAN SCIENCE MONITOR, May 14, 1948.

8 On these points, see: Julie A. Matthaei, "Consequences of the Rise of the Two-Earner Family: The Breakdown of the Sexual Division of Labor," AMERICAN ECONOMIC REVIEW: PROCEEDINGS OF THE AMERICAN ECONOMICS ASSOCIATION 70 (1980): 198-202, Frank Levy, "We're Running Out of Tricks to Keep Our Prosperity High," THE WASHINGTON POST (OUTLOOK), Dec. 14, 1986; Allan Carlson, "Work and Family: On a Collision Course in America?" PERSUASION AT WORK 9 (May 1986); and Allan Carlson, "Family Affairs: The Moral Politics of the Minimum Wage and Work-at-Home," 10 PERSUASION AT WORK (February 1987).

9 The economics of these new pressures are described in: John Ermisch, "Investigation into the Causes of the Postwar Fertility Swings," in David Eversley and Wolfgang Kollmann, POPULATION CHANGE AND SOCIAL PLANNING (London: Edward Arnold, 1982); Michael C. Keeley, "The Economics of Family Formation," ECONOMIC INQUIRY 15 (April 1977): 238-249; William P. Butz and Michael P. Ward, "Will U.S. Fertility Remain Low? A New Economic Interpretation," POPULATION AND DEVELOPMENT REVIEW 5 (December 1979): 663-83; and Gary Becker, A TREATISE ON THE FAMILY (Cambridge, MA: Harvard University Press, 1981).

APPENDIX A

I. COMPONENTS OF FAMILY TAX RELIEF PLAN

[1] Increase the personal exemption, for dependent children only, to $4,000 per child.

[2] Grant a $500 Child Care Tax Credit to all parents for each pre-school child (through age six), to a maximum of $1500.

[3] Grant a refundable and indexed Dependent Child Credit of $600 to families for each child, up to the total value of the families' and employers' combined payroll tax for the year (14.3 percent of salaries and wages for employed persons, 12.3 for the self-employed).

[4] Grant an extra Dependent Child Credit of $600 to families in the year of a child's birth or adoption, with the same ceiling.

II. EFFECTS ON A SAMPLE FAMILY WITH VARYING INCOME.

A. Assumes father employed with a taxable income of $25,000 a year; Mother, not in paid labor force, caring for three small children at home (ages 7, 4, and 6 months as of Dec. 31).

	Under current Law	Under Proposed
Family income	$25,000	$25,000
Standard Deduction	5,000	5,000
Personal Exemption	10,000 (2,000 x 5)	16,000 (4,000 x 3) (2,000 x 2)
Taxable Income	10,000	4,000
Income Tax	1,500	600
Payroll Tax	1,788 (3,576 with employers portion)	1,788 (3,576 with employers portion)
Child Care Tax Credit	none	1,000
Dependent Child Credit	none	1,800
Extra Credit During Year of Child's Birth	none	600

NET ANNUAL INCOME, AFTER FEDERAL TAXES	Income:	25,000		25,000
	Less income tax:	-1,500		-600
	Less payroll tax:	-1,788		-1,788
		$21,712	Child Care credit:	+1,000
			Depend. Child Care Credit:	+2,400
				$26,012

NET GAIN: $4,300

B. Assumes father, employed, with a taxable income of $15,000 year; mother, not in labor force, caring for three children at home (ages 7, 4, and six months, as of Dec. 31).

	Under current Law	Under family Relief Plan
Family income	$15,000	$15,000
Standard Deduction	5,000	5,000
Personal Exemption	10,000 (2,000 x 5)	16,000 (4,000 x 3) (2,000 x 2)
Taxable Income	-0-	-0-
Income Tax	-0-	-0-
Payroll Tax	1,073 (2,146 with employer portion)	1,073 (2,146 with employer portion)
Child Care Tax Credit	none	1,000*
Dependent Child Credit	200 (Earned Income Credit est.)	1,800
Extra Credit During Year of Child's Birth	none	600

*refundable

NET ANNUAL INCOME, AFTER FEDERAL TAXES	Income:	$15,000		$15,000
	Less income tax:			
	Less payroll tax:	-1,073		-1,073
	E.I.C.	+ 200		
		$14,127	Child Care credit:	+1,000
			Depend. Child Care Credit:	+2,146
				$17,073

NET GAIN: $2,946

C. Assumes father, employed, with taxable income of $20,000 per year; mother, employed part-time, earning $10,000 per year; two pre-school children in day care, one in school (ages 7, 4, and 6 months, as of Dec. 31).

	Under current Law	Under family Relief Plan
Family income	$30,000	$30,000
Standard Deduction	5,000	5,000
Personal Exemption	10,000	16,000 (4,000 x 3) (2,000 x 2)
Taxable Income	15,000	9,000
Income Tax	2,250	1,350
Payroll Tax	2,145 (4,290 with employers portion)	2,145 (4,290 with employers portion)
Child Care Tax Credit	960	1,000
Dependent Child Credit	none	1,800
Extra Credit During Year of Child's Birth	none	600

NET ANNUAL INCOME, AFTER FEDERAL TAXES	Income:	$30,000		$30,000
	Less income tax:	-2,250		-1,350
	Less payroll tax:	-2,145		-2,145
	Child Care Credit:	960	Child Care credit:	+1,000
		$26,565		
			Depend. Child Care Credit:	+2,400
				$29,905

NET GAIN: $3,340
(retained income)

Chairman MILLER. Thank you.

It is rather fitting, Mr. Carlson, that you ended up this panel, because the rest of the message would seem to me—again, if we look at the trend lines in terms of family incomes that were presented in the first panel—that if you are thinking about children, don't, and, if you do have children, you are in for a lot of trouble in terms of economic survival. We are not talking about providing your children with designer jeans; we are talking about providing your children with necessities, from housing to college to child care, which plays a role in whether or not you are going to be able to earn an adequate income.

It would seem to me, if I take the collective testimony, that it is not so much a question of aspiring to the consumer aspects of middle class life as it is just getting through the year and getting your children raised. Because when you describe the increases in cost, it seems people are going to have a hard time just providing for those essentials—education, housing, child care, and health care—that just to meet what I think most of us sitting on this side of the table would consider to be the minimums for our families in terms of access to those institutional necessities, it appears it is going to be very, very difficult, absent, again, some major change in household incomes.

I don't want this to be doomsday. The flip side would be, therefore, you are going to have to make a $40 billion decision in society either through tax credits or programs. We can argue the efficiency of either one, but apparently there needs to be an augmentation to this group of people of about $40–50 billion. I have already gone to $50 billion, you were at $30 billion or $40 billion, but that is the nature of Democrats. But since you are raising the taxes, I might as well spend them.

It is a recognition, however you couch it, that there is a real shortfall for a substantial number of people in this society in obtaining those goods that people assumed were necessities that they would be able to cover, and a lot of other things that come your way as a member of the middle class or member of this society that are kind of discretionary. But it doesn't look like household income on the long line is going to be there to provide for that.

Mr. CARLSON. If I might just briefly reply since you responded, in a sense, to what I was saying. I agree with you there that there is a problem, that it is not one that the market is going to solve by itself. I can get into a long, complicated, philosophical explanation as to why that is true. But once the old family wage economy that was constructed early in this century fell apart in the 1960's, for some good reasons to some degree but also without much attention to what the consequences were of scuttling it, it has left us in a bind.

It is true that children represent an enormous cost, and increasingly it is an avoidable cost if people so choose. The incentives aren't working the right way any more, and we rely simply on the good nature and the love that parents do provide children to produce families, but increasingly the economic cost is getting higher and higher to do that. So I do think something needs to be done.

My view is that the best way to do it is to expand the kind of choices that you are going to provide and do it indirectly through the tax code as a vehicle of social policy. That is heresy to someone of the strict libertarian bent, but I think it is an effective way of doing it. It increases choices and avoids saying "to get the benefit you have to do it such and such a way."

Mr. CLAY. If I could comment as well, in my testimony I started out with the observation about the 40-year anniversary, and I think it is important for a variety of reasons, and that is that the population we are now talking about, parents of children, are the children of the first generation for whom we made a commitment around the very issues we are talking about today.

So looking at myself as sort of the leading edge of the Baby Boom when our parents emerged out of the Depression and out of World War II, we had a housing crisis, we had a lack of community hospitals, we had insufficient numbers of schools; colleges were prepared for the demand. The Nation made a major commitment in all of those areas in a variety of ways over a period roughly from the late 1940's until 1980.

Those parents, our parents, felt comfortable about having children. They thought they were making a major contribution. They provided them with love and in-home love to a significant degree, and those children grown up are now the people who are looking at the same possibilities that their parents have and saying they can't have them; we can't afford to buy the kind of house; there are no 3 percent down payment mortgages, no 5 percent mortgages; hospitals and insurance are all expensive; and what we are coming back now and suggesting is, how can we return to a social policy which reflects what I suspect is our psychological disposition towards strengthening and supporting family life?

Chairman MILLER. If I read your testimony correctly, on housing, before we talk about creating net new units, Dr. Clay, we would have to create 300,000 new units just to stay even with what is disappearing. Is that correct?

Mr. CLAY. There are three kinds of supply that we need.

Chairman MILLER. Before I get a net new unit in this society, as you describe the group.

Mr. CLAY. Okay. Each year we get an additional number of families who can't afford to pay, so we need units for them. We only serve about 20 percent or 24 percent of the families who are eligible for programs. So to make any progress towards serving more of the people who are eligible, we need additional units.

Then there are the 4 million units that we built that, I think, are at some risk of loss because their subsidies are expiring or the contracts under which they are subsidized are coming to an end. So we need to think about what we do with those 4 million units that will be at risk over the next 10–15 years.

In 1968, the Douglas Commission estimated that we needed 6 million units a year, 10 percent of them for the poor. We have never produced at that level, so that is why we haven't solved the problem. I don't have a number now for the total number of units we need to produce, but I think the number of families in need is 15 million.

Chairman MILLER. In this previous work that you did, it would appear that we would need a dramatic increase in the commitment to new housing just to get a net new unit because of the growth in the demand and the diminishing, if you will, or the taking housing out of stock. In a good portion of the area I represent, most of what we assumed was sort of low-income housing stock or moderate-income housing stock is now buried under parking lots for K-Marts and regional shopping centers, and it never came back. Nobody changed that fact.

So if we went back to what was viewed as a heyday, what you are suggesting is, we would not stay even with the decline in the units of housing available because of those factors. Let me just finish, and then you can tell me if I am right or wrong. That says to me, when I look at the numbers, that I can get ready for the next decade to have the homeless be a permanent fixture in this society.

Mr. CLAY. I would hate to come to that conclusion.

Chairman MILLER. I hate to come to that conclusion, too. I am just adding the numbers up, and we all know that those things change, but I am just saying that, on the raw numbers, this notion that we have emergency temporary help for the homeless like we passed yesterday in the Congress, that help is not going to be emergency, that is going to be an ongoing appropriation, because they are going to be with us in at least roughly these numbers, if I read your numbers right, for at least the next decade.

Mr. CLAY. I think that is correct. I would also say, though, that when I give numbers of need like 15 million, I don't suggest that we need to think about 15 million as an immediate target for construction. If we were to go back to, say, the level in the early 1970's, around 350,000 to 400,000 units a year, which would be about 5 times what we are doing in 1987, I think that, strategically placed, would make a significant contribution. You could begin to deal with waiting lists, you could begin to prioritize families that are homeless, you could take some of the pressure off rent increases in the private market.

Chairman MILLER. But that 300,000—I am just trying to draw a comparison—is what we were doing in the heyday.

Mr. CLAY. That is right. But do note that the feds will have partners—States, cities, and CBO's, who were not around in the 60's and 70's. They can contribute a lot, perhaps a quarter.

Chairman MILLER. I don't know anybody in the Congress, absent a few, who is thinking in those terms—I mean we just went through the budget process, and we continued with diminishing housing in the two big programs; we've cut 87 percent over the last three or four years and 90 percent in the other housing program—to go back to where we were six years ago, which wasn't the hallmark here.

Congressman Coats.

Mr. COATS. Mr. Chairman, I have a question for you to start out with. As you and Mr. Carlson and I all agree that families are being short-changed in today's society, and we have a respected conservative organization spokesman here suggesting the possibility of a tax increase, and I think there is agreement between the two of you that about a $40 billion infusion is necessary here, the question I have is, if we on our side agree to support the $40 billion tax increase, will you agree to let us spend it the way Mr. Carlson suggests?

Chairman MILLER. I supported the increase.

Mr. COATS. That wasn't my question.

Chairman MILLER. I am for a child's allowance, absolutely.

Mr. COATS. Well, Mr. Carlson, I just say that somewhat in jest, but I think you suggest an interesting means of looking at the question and preserving the choice, looking at some options of strengthening families and improving families across the board.

I would like for you to comment, if you would, on the action that Congress took under the 1986 Tax Reform Act in essentially doubling the personal exemption, because it is far less than what you suggest. But what effect do you think that will have?

Mr. CARLSON. I think it will have a positive effect. Certainly it will protect more family income, and it is keyed to size of family, which I think is the key. The more children you have, the larger the family, the more the tax benefit, the more money you retain.

I think its effect was diluted to some degree by the fact that, of course, it was universal; it goes to adults as well as children and any other dependent one can dream up. So its effect is diluted, and its cost-effectiveness, in a sense, is less.

If you confine the increase just to children, another increase—I am not talking about a roll-back here but another increase just for children—the "cost" is less and its effect is well targeted.

The other good thing that the Tax Reform Act of 1986 did for families was that it broadened the eligibility for the Earned Income Tax Credit, which I think is a wonderful little policy device. It is for the working poor with at least one child in the home, and it raised the ceiling for its eligibility.

Another good step—again, if you can't do the whole thing at once—another good step in the right direction would be to expand again eligibility for the earned income tax credit and increase its size, the size of the credit, by number of children. Right now, it holds that for one or more children, you get the same credit. The change would be to increase its size according to the size of the family.

It is tied in theory to the payroll tax. In a sense, you are refunding from the General Fund what was paid into the Social Security Fund through the payroll tax. I would keep that bond, because it still makes it, in a sense, your own income being refunded back to you because you have children in the home, and I think that is a good way of going at it.

So the 1986 act did two very good things. I would say let's go further.

Mr. COATS. Dr. Hofferth, some of the numbers you gave us regarding the percentages of people that use day care centers versus family day care versus relatives versus sitters indicate that while the trend is down in terms of using relatives, about steady in terms of using family day care, and of course up with day care centers, it is still two to one relatives over day care centers and about three to one when you combine relatives and family day care. Yet most of the policy discussion that we are talking about here in terms of day care is oriented toward the day care center approach. Do you have any suggestions or thoughts about things that we ought to be looking at to support at-home or relative and family day care as opposed to the center approach?

Ms. HOFFERTH. Yes. Thank you for asking that. That is quite a good observation and good question.

It is true that relative care is overwhelmingly used by families for preschool children and also for after-school care for school-age children. It is quite important, although it has been declining over time. The reason it is important is, first of all, people don't have to pay relatives. About half of the families that use relative care do not pay the relative.

One of the things I found is that those who do pay relatives are paying more and more. So, unfortunately, the price of relative care has been going up and at a much more rapid rate than center and day care home care. Thus relative care is becoming more expensive compared with other forms of care. It is not cheap, and there may be other things that families have to give up in exchange for having a relative care for their child.

Families make a lot of adjustments when both parents work outside the home and they have children. Families apparently try to adjust their hours to the type of care so that they can either handle all of it or so that they don't pay an exorbitant part of their income for it. One of the things they can do is use relatives, if available. Unfortunately, with families becoming increasingly mobile and living farther from relatives, and with relatives themselves more likely to be working out of the home than in the past, there may be simply less access to relatives for child care. So although I agree that supporting relative care is important, it is probably not a long term solution.

I think that in the long run it is likely to continue to decline in this way because of the importance of employment outside of the home for women, who are the majority of these relative providers of care. Grandparents may be working, and they may not be available.

Mr. COATS. What about the concept of vouchers for those under a certain income level, giving them the choice of using that voucher for whatever type of day care they want?

Ms. HOFFERTH. Low-income families are more likely than other families to find a relative or a low-cost source of care. While low-income families are able to find care, such care may not be optimal. Vouchers sound like a useful technique. The extent to which vouchers help families find good quality care should be explored. Vouchers would certainly assist those families who now have to pay for care out of their own pockets.

One of the problems with the AFDC disregard, for example, is that, although what AFDC recipients pay can be excluded from their income in calculation of eligibility and benefits, still they do have to pay out of pocket.

The statistics, unfortunately, are difficult to obtain. We asked mothers whether their child care is subsidized, but only a small number responded that they receive some sort of subsidy. Part of that is just the difficulty of a mother determining whether in fact she is receiving assistance or not. She may be subsidized as well as pay some money. So it is difficult to predict the effectiveness of such a voucher system. Rigorous evaluation of ongoing programs is needed.

As you see, the trends are pretty clear as to what families are doing. They are paying relatives. I presume that such a voucher could be used for relative care, too; if so, it would increase families freedom of choice of caregiver.

Mr. COATS. Dr. Chollet, you confined your testimony to health care, but I am wondering if, given your background, I could just expand the question a little bit and ask you to comment on the concept of moving. It seems that, publicly here, we are moving more and more toward mandated national benefits, mandating that employers provide certain benefits. Yet many of the working mothers, employed people that I talk to, are asking not for mandated benefits but for flexible benefits. They want the ability to go in and choose benefits that will tailor their needs at that particular time. Some people have young families that need different types of benefits than someone whose family is grown, or a single parent needs different benefits, child care perhaps, than a married couple where the wife stays at home.

Have you done any work looking into this idea of mandated benefits versus flexible benefits? Give me your comments on that.

Ms. CHOLLET. In fact, that is an insightful question. The two are in contradiction. The approach that most States, have taken to mandating health insurance benefits has been to require that if employers offer an insured health plan, that the plan include coverage for a variety of providers and specific health care services. The result of that, to the best of anyone's ability to estimate, has been to substantially increase the cost of insured health plans.

Employers typically offer a health insurance plan as a leading employee benefit. That is, if they offer no other employee benefit, they will attempt to offer a health insurance plan. Other than time off like vacation and sick leave, a health insurance plan is usually the first benefit.

For smaller employers, however, the cost of offering that benefit, given all of the bells and whistles that are built in by State law, has been rising substantially. That means that there may not be enough money left over in the labor budget, in the amount of money the employer has to spend on wages and benefits, to offer anything other than this fixed package of health insurance benefits that is required by law. Whereas many employers, and especially small employers, given their relatively personal relationships with their employees, would respond to a demand for a flexible benefit, with a scaled-down health insurance package, for example, and some contribution to child care, that is prohibited if the cost of the health insurance package is, in fact, dictated by State requirements.

Mr. COATS. Thank you.

Chairman MILLER. Congresswoman Boggs.

Mrs. BOGGS. Thank you very much, Mr. Chairman, and I thank all of you.

I apologize to the first panel and to those of you whom I missed on this panel. I am a member of the Appropriations Committee, and we were marking up the appropriations transportation bill this morning. I came as soon as we concluded that. Incidentally, good public transportation and other types of transportation are also very highly necessary to the welfare of our families.

Dr. Clay, I was especially interested in your testimony. Number one, I am very grateful to you for what you have done with the Neighborhood Reinvestment Corporation and your advice to them. They are meeting in my home district of New Orleans this August, and I hope you are coming down.

Mr. CLAY. I plan to be there.

Mrs. BOGGS. Good. I am delighted to hear that.

I have a special interest in housing. I was very favorably impressed with your overview of our housing programs and our housing needs, our housing excesses, and our housing deficiencies over the past 40 years or so.

When I first came to Congress, I came in March of 1973 and asked to be put on the Banking and Currency Committee and, if possible, on the Housing Subcommittee and the Financial Institutions Subcommittee, because the most pressing concern in my district was the moratorium that had been placed on several of the programs and the President's impoundment of funds for the Urban Renewal Program and the moratorium on 235 and 236 especially.

Everything in my district came to a screeching halt. The city of New Orleans was the last city to receive urban renewal because the State legislature would not allow it to do so earlier, and all of the programs had been geared to the Urban Renewal Program, and the appropriation, and expropriation, and planning, and tearing down had commenced, and the rebuilding had not. Of course, in the smaller cities, the 235 and 236 programs were especially important.

We forget that before the Budget Act those sorts of impoundments by a President were possible, and the Budget Act, of course, gave us an opportunity to do away with the impoundment situation.

However, the Budget Act has now imposed a new difficulty upon us, because we have now gone, especially since the Gramm-Rudman bill, to imposing various allocations over the different subcommittees, and we find now—I sit on the Subcommittee on Appropriations for Housing and Urban Development and Independent Agencies, and you have an allocation over all of those areas of interest.

When the committee receives the President's budget, which cuts the housing programs by 70 percent, and then you have NASA and the Veterans' Administration, the National Science Foundation, the Environmental Protection Agency, the Federal Emergency Management Agency, et cetera, within that same allocation, you have a very difficult time putting monies back into housing, and, of course, when you do, you take them away from all of these other programs. So we have now imposed another difficulty upon ourselves, having the Budget Act save us at one point and it has now imposed a new difficulty upon us.

I think we are at a very critical time, of course, in housing policies, and I am very pleased that you addressed the overall view. The Congress this year has taken another view, an overall assessment of housing policy, and it is highly indicated that we do this, and I think your guidelines will give us an opportunity to look at them from the point of view of families particularly.

Mr. CLAY. Thank you very much.

I very much appreciate the difficulty that housing advocates in Congress have. I guess one of the observations I would make is that certainly it happens in the university setting where we discover we have a problem and that we seek then to create a solution to the problem which becomes worse than we could ever have imagined.

I would hope that the debate around housing policy in the Congress would focus on housing, and then, when the Congress has some consensus over it, I hope the procedural difficulties won't stand in the way, but I do understand the difficulty.

Mrs. BOGGS. Very fortunately, the authorizing committee this year did have a housing authorizing bill, and it addressed many of the problems that all of us are concerned with.

But the Subcommittee on Appropriations has put back into the budget every year some public housing units. Last year, we did so, and then, of course, we had an amendment on the Floor that went to the substantial rehabilitation instead of to new units. This is a very excellent idea, to substantially rehabilitate units, particularly vacant units within housing projects because of the obvious difficulties that ensue from the vacancies.

But I think your insistence that we include families with children in fair housing is really a key suggestion, because if that is true, then we will have to make more units available for families, family size units available. Do you think the voucher program can really handle that?

Mr. CLAY. My feeling about the voucher program is that I think it works. It could work moderately well in markets where there are an adequate number of units. Where there is a housing shortage, which applies to many of our large cities and to the Northeast region generally and to parts of the West, I do not believe that a voucher will work very well, and I think the evidence of the Section 8 Program demonstrates it.

The basic problem is one of discrimination against families. If you have five applicants for a unit, then the landlord will choose, and they will choose the least cost, least trouble, most dependable occupant, and families with children, unfortunately, are perceived as more problematic than, say, a single person, or childless couple, a divorcee, or an elderly person. So I think that is one of the problems with the voucher program.

The other is that we do have in many of our cities a population growth, a household growth, and we just have to have new units. Now we can get into the economic, analytic task of figuring out what kind of unit makes the most contribution to solving the housing problem, and I think that is a worthwhile argument, which is why I would suggest that to deal with the 15 million problem we don't need to construct 15 million units, we need to construct a lot less but put them in the right places and have them available.

I would prefer to see an approach at the Federal level which facilitated local planning. A community that needed units got support for units; in areas where they did not need new units, ensure that rehabilitation be adequate and vouchers available. I think in the vacuum that has been created in the last several years, states are in a much better position to make those kinds of judgments, to use their own resources, and to use regulatory power to increase the public leverage.

I hesitated in my testimony to put dollar signs, because one of the things we have learned in recent years is that there is a lot of leverage out there which is not entirely Federal. There is leverage at the state level, there is leverage at the local level, and there is regulatory leverage, and I would like to see all of those things put to the service of solving the housing problem rather than sort of saying that what we need is $40 billion of Federal money and if we can't get that, then we simply wring our hands. I don't think we need that much Federal money, but I think we need it for strategic use.

Mrs. BOGGS. And the public-private partnerships that have been, of course, effected over the years have been excellent. I notice in your four-phase policy that you suggest that this is certainly one of the most efficient and effective ways to go. Could you expand on that a little bit?

Mr. CLAY. I think the major point I would make about the public-private partnerships is that, at least in the cities I have looked at, there is a growing disposition on the part of the local community, including the political and business community, to take account of the housing policies in their programs and in their policies; so that when the issue of disposition of vacant land, deprogramming a vacant school, allocation of tax-exempt financing, I think now, as opposed to, say, 10 years ago, one has to scream less loudly to get attention to low- and moderate-income housing than used to be the case.

We even have the situation in Massachusetts where suburban communities are interested in affordable housing. Now their definition of "affordable" doesn't help the poor, but it certainly takes some of the pressure that would otherwise occur in the housing market.

So I think there is a private disposition, there is a local government disposition, to work on these matters, and I would like to see that for every dollar we think we need in housing that only a certain percentage of that is really a Federal dollar.

Mrs. BOGGS. Thank you so much, Dr. Clay.

Dr. Carlson, I had a great deal of deja vu when you were presenting your testimony. My husband, Hale Boggs, and Gene McCarthy sat on the Ways and Means Committee together for several years, and many of the things that you are suggesting about tax credits for families they suggested at that time.

I do think that your ideas are ideas that are finally coming into their own and that we should certainly pursue some of the suggestions that you are making, and I congratulate you on recognizing that we may have to raise new revenues in order to have some revenues foregone.

Mr. CARLSON. Well, if I might just respond, that would be the last resort, I think, but sometimes we reach that fairly quickly. Thank you, though.

Mrs. BOGGS. I thank all of you. I am very interested in all of your testimony, and I know that I have taken too much time, so I will yield back my time.

Chairman MILLER. Congressman Skaggs.

Mr. SKAGGS. Thank you, Mr. Chairman.

I, too, apologize for having had another committee meeting this morning and arriving late, but I have enjoyed and learned something in the last hour or so.

I was interested, Dr. Carlson, in your suggestion to change the child care tax credit into one of a universal nature, regardless of whether or not funds are actually expended for child care purposes and the idea of changing the nature of the earned income tax credit.

It seemed to me both of those, by extending them in the way that you propose, involve significant additional costs, and given that you reached the conclusion that your proposal is sufficiently expensive to warrant tax increases, I wonder about the trade-offs there of uniformity versus a more targeted approach. I would like you to elaborate on that.

I also want to ask Dr. Hofferth your view on the usefulness of that approach to a child care credit versus, again, a more targeted to need strategy.

Mr. CARLSON. First of all, on the child care tax credit, it was created, as you indicate, as a targeted approach to help families who are either in the work place or attending school full-time.

I think the problem with it is that it is discriminatory. It is discriminatory on the face. It recognizes one kind of need—that is, the need and the cost that is met by, say, a two-income family using day care, to choose a classic example.

It does not recognize, though, the sacrifices that are being made by the one-income family with the mother at home, for example, who is giving up extra income, who is paying what the economists call "opportunity costs," to perform what I consider to be a socially productive act, which is to raise a child well. I think that is something that is worthwhile.

So it recognizes one form of cost, in a sense one kind of sacrifice, but it does not recognize another. Now that I consider discriminatory.

I think the only way to eliminate the discrimination is either to eliminate the credit or to universalize the credit and key it so that if you have a preschool child, this Government will recognize that that is a socially responsible act and we want to help you, but we don't want to dictate how you are going to raise that child.

I know when the White House proposed its tax reform bill in 1985 or 1986 it proposed eliminating the credit. It was also the first thing they retreated on. There is a strong constituency for it. So I think political practicalities suggest that if you can't eliminate it, then the other option comes into play, and that is to universalize it. I think that is only fair.

Mr. SKAGGS. Why not just expand your proposal for a larger per child personal exemption? Why bother separating it out at all?

Mr. CARLSON. Because what you do is you shift the incentives. When you create a benefit, you shift the incentives in a subtle sort of way, and I don't think that the Federal Government should be setting up incentives relative to child care. That is, if this credit is available, it is a real, tangible benefit worth up to, if there are two children involved, $1,000.

It is setting up an incentive so that if you have two small children, you know that I can get that benefit, so to speak, if I put them in day care, but if I choose not to, I don't get the credit. So I would do both, actually. I am talking about something pretty major here, I grant that, at least in the conceptual idea, but it still sets up an incentive.

If you raise the exemption, shall we say, both categories that I laid out get the exemption, but only one category of choice still gets the credit.

Mr. SKAGGS. I mean in lieu of any credit whatsoever.

Mr. CARLSON. Oh, fine. I would agree with that. But, like I am saying, when they proposed eliminating it—well, the White House proposed it—that was the first thing that the White House retreated on, which tells me—and I know, in fact—they came under a great deal of pressure. So I'm not sure if it is politically practical, but I think ideally I would agree with you: Raise the exemption; eliminate the credit; I would prefer that.

Ms. HOFFERTH. I think that this is really a question of social policy objectives. I can't address that part of it, but I would like to comment on a couple of issues I see which are very important. One is the issue of incentives for childbearing and rearing in general, which I think is an important one. It has been touched upon at a couple of points today. A second one is the issue of low-income families. So I have two points I would like to make in evaluating such an innovative proposal as has been presented today.

I would like to say, first, that such a credit seems to me, on the face of it, to be an incentive to childbearing. If you lower the cost of having children, people are likely to want more and to be able to afford them sooner. The cost of children is an important determinant of childbearing decisions. Whether this is what is intended by the proposal I cannot say. So I think that is certainly an interesting objective, in general.

However, families make a lot of decisions about work and children jointly. I mentioned that at the beginning. To the extent that having children is a voluntary decision, people make decisions among alternatives about how to spend their money, their family income. They may decide that they are not going to have kids and instead they sail around the world, or that they are going to have and spend money on children, getting the important benefits and enjoyment that children bring. In spite of their cost people are still making the decision to have children, although they are having fewer of them. There are a lot of benefits that come from having children.

So families choose how to spend their money. Partly because of this, our society has taken childbearing and rearing to be a private decision. Families cover expenditures on children largely out of their own incomes. We have not, at least so far, as a society, said that the Government is going to subsidize people having children. We are saying that families make this decision, these are private decisions, and families pay for them.

Now that is not true for all the things that happen. For example, with Social Security, we have said that to some extent society has a responsibility to help older people, So there are some family responsibilities that have been more in the public arena, but childbearing has been private. The proposal mentioned today might have some unintended consequences; for example it might change the incentive structure for childbearing and increase the birth rate. Thus it might have important societal implications.

I also want to say that investments in children are important for society. We do hope that families will have children, because, if not, we are all in trouble in the future. In addition, we want good quality children. We want children who can read and write, can work, can contribute to society, can support themselves and us in our old age. So, in this sense, these decisions are not totally privatized. They have consequences for us as a society.

Some concern has been raised that as the costs of children go up, people are either less willing to have kids or that they are less able to invest as much as they could in producing good-quality kids.

Now that leads me to the second issue, that of poor families and poor children, that I don't think the proposal presented today has addressed at all. Now that doesn't mean it couldn't, but so far it has not. There may be unintended consequences from such a proposal; we should definitely look and see what they are. We have found out that policy actions may affect people's incentives in unanticipated ways.

The issue of refundability is important for low-income families. Under the current proposal families would get more money back (or a larger credit) the more income they make. This would increase inequity between families. Low-income families with no tax burden would not get anything, presumably, and if they have a very low one, they would get very little, when, in fact, we see that low-income families spend a larger part of their incomes for child care than do middle- and upper-income families.

Whether housing, food, or child care, whatever it is, families have to spend a certain proportion of their income on basic necessities. Even though there are some differences, and some families are subsidized, still, poor families spend a lot on these basic necessities. Just because they don't make as much money doesn't mean that they are not going to spend anything on child care, food, and clothing; they are.

A child care credit which is refundable for low-income families has been discussed but not acted upon. Low income families are not really getting the child care assistance that they need. Of course these are the ones about whom we are most concerned, because their children are at serious risk of growing up in families who cannot provide the health care, the schooling, and the support that they need to grow into productive members of society. So I think your question about targeting is crucial.

There may be several approaches that could be made. I am not saying that there is any one, but certainly we have not yet addressed this issue of the needs of a substantial proportion of the population which is at risk of poor outcomes. This is a very serious consideration as family incomes are low and yet we see that their expenditures, in fact, are not low; they are very high as a proportion of income—20 to 26 percent of income just on child care alone, let alone housing, food, and all the rest.

So let me just leave you by saying that I can't answer the question of the policy objectives, but we certainly could do a rigorous analysis of what the implications of such proposal might be, the groups that might be left out, and what the implications of that are.

Thank you.

Mr. SKAGGS. Thank you, Mr. Chairman.

Chairman MILLER. Thank you.

Dr. Frances, let me ask you a question. Am I reading your testimony correctly when it suggests to me that one of the causes for increased tuition may very well have been the decline in public resources?

Mr. FRANCES. Exactly.

Chairman MILLER. That is the trade-off.

Mr. FRANCES. It is failing to grow as fast as the underlying costs, yes.

Chairman MILLER. And it appears also that this echo of the Baby Boom, as somebody said earlier, is going to start out much deeper in debt than their parents with respect to education. Is that accurate also?

Mr. FRANCES. Absolutely.

Chairman MILLER. We are training little debtors.

Mr. FRANCES. Right. We have a new American class of debtors.

Chairman MILLER. It is a fairly heavy debt they carry with them.

Mr. FRANCES. It runs in the private sector up to $8,000 or $9,000.

Chairman MILLER. Do you know if this has any impact on the decision to have children? You start out in your marriage, two-income, young people; you are $15,000 or $16,000 in debt in student loans at a minimum, and maybe more if you have gone on to advanced degrees. Does that have an impact?

Ms. HOFFERTH. I don't know the relationship between specific amount of debt and childbearing, but there is certainly evidence that the greater the costs that are expected, the less likely to have a child right away. There may be some delay until they get back on their feet. I don't have any more specific information on that.

Mr. FRANCES. If you look at the housing arrangements that young people have now and the household formation, there may be some hints that the unrelated individuals living together is increasing, and this may be for economic reasons.

The number of married couples is increasing, I think, at 13 percent, while the single-family household is increasing at about 80 percent, around five times as fast.

Mrs. BOGGS. Mr. Chairman.

Chairman MILLER. Yes.

Mrs. BOGGS. I noticed in the testimony that there was a reference to the drop in minority entrants into colleges and universities. Do you have any solution for that obvious problem?

Mr. FRANCES. Well, we are not exactly sure why it is happening. There is some speculation that the shift of student aid from grants to loans is hitting the minority population much harder because you have less access to loans, less traditional borrowing. That may be affecting the ability of the students to go ahead. I don't think we know very well why this is happening.

I also have to say that it varies by minority group. The Hispanic origin population college-going rates are increasing now. I think one out of every five of the added students is of Hispanic origin.

Mrs. **Boggs**. But it is such a small percentage, isn't it? About 4 percent or something like that.

Mr. **Frances**. Right, but rising to a very large percent of the added students.

Mrs. **Boggs**. I sit on the President's Council at Tulane University, and the rising cost of education, particularly of tuition, has been something of tremendous concern, and of course a startling statistic last year was that if you looked at all of the young people who were eligible to enter college that year, and they could pay the full tuition at a private university or college, and they had the high scores, high SAT or ACT scores in order to be eligible to be admitted to one of those colleges or universities, there were 18,000 young people in the whole country who would qualify.

So universities and colleges, of course, spend a great deal of their time trying to subsidize the tuition of their students in order to get the high-quality students in lower-income groups. Of course, all of this becomes tremendous competition around the country for the kinds of funds that can support that type of private subsidy.

I think there are those colleges and universities, such as Tulane, which is situated in a city which is about 53 or 54 percent black, that has a very positive outreach program, but I do think that the declining grants and the more severe loan situations have indeed affected the minority entrants into private colleges and universities.

Mr. **Frances**. I think that is correct.

Chairman **Miller**. Dr. Chollet, you mentioned that health care is a leading benefit that would be offered, but it is not offered by a lot of them. There are still an awful lot of people who aren't offering anything to close this benefit gap. I mean the decision to provide health care is affecting millions of workers. To combine that with what you suggest here, that what we see as the decline in health care coverage of workers their dependents may be somewhat attributable to the growth of employment outside those industries in which we expect traditional high coverage which goes along with what Ms. Schoen said. If I read the two correctly, then in this service sector economy where all the growth is, it is not just a question of wages but also of benefits, especially benefits to dependents.

Ms. **Chollet**. We have seen two things happen. In fact, the health insurance coverage rates have fallen. I think it is important first to remember that we don't have a health insurance system in tatters; we do have, in fact, three-quarters of workers covered by employer plans. So we are dealing with changes at the margin, albeit important changes at the margin.

We have seen the same kinds of trends in pension coverage among workers that we have seen in health insurance benefits, a reduction in coverage that corresponded to the recession of 1981 and 1982, and no apparent recovery, or no recovery commensurate to the recovery, in employment because of higher employment growth in some industries.

We don't have the data that Ms. Schoen presented with respect to contract workers. Maybe, in fact, contract workers are an important percent and perhaps a growing percent of employment in some of these low-coverage industries. But we do see large and projected further growth in retail trade, for example, which includes eating and drinking establishments that have notably low rates of health insurance and pension coverage. Presumably this foretells a continuation of the erosion in employer-based health coverage.

Chairman MILLER. Thank you very much for your testimony and for your help to the committee.

Mrs. BOGGS. Mr. Chairman, may I ask just one other question?

Chairman MILLER. Yes, of course.

Mrs. BOGGS. Of course we are all going to be grappling with welfare reform, and the decline in Medicaid coverage and payments was something that was very telling in your testimony.

One of the big difficulties, of course, is that when we train people who are on welfare for jobs, then when they receive a job, they are not covered right away by health care in those jobs, and sometimes, as you have mentioned, the industry or business they enter doesn't have health care insurance coverage, and they become very concerned about the coverage, particularly of their children.

Would you have any suggestions about what we could do in order to relieve that situation? Should we extend the Medicaid coverage for a certain period of time or until the parent achieved a certain income? Is there some way that we could encourage them to stay in the work force and to assume some type of health care coverage?

Ms. CHOLLET. Several Medicaid provisions have resently been enacted. I mentioned some of them in my written statement: the DEFRA legislation that was enacted in 1984, the COBRA legislation that was enacted in 1986. Provisions in this legislation provided that States extend health insurance benefits to children, poor and pregnant women, whether or not they were receiving cash benefits from AFDC.

At this point, I would like to correct something in my written statement. I said that those children are now covered up until age 8; they are not; that has been, in fact, proposed in the Senate, that those children be covered to age 8; they are covered until age 5 currently.

The major stricture, however, associated with these apparent expansions of Medicaid benefits is that these individuals must financially qualify; they financially qualify based on the state's AFDC level of income, and that AFDC level of income has eroded dramatically since 1980.

The median level of income in the states that would financially qualify a categorically eligible family with children for AFDC benefits eroded from 79 percent of the Federal poverty standard to 48 percent of the poverty standard over the last decade—1975 to 1986.

Efforts to ameliorate that situation, to qualify more of the categorically eligible poor for Medicaid benefits would probably be of greatest assistance to the working poor who systematically remove themselves from Medicaid eligibility, simply because one has to be so dismally poor to be Medicaid eligible.

Mrs. BOGGS. Thank you so much.

Thank you, Mr. Chairman.

Chairman MILLER. Thank you very much.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned.]

[The following material was furnished for the record:]

PREPARED STATEMENT OF HON. GEORGE C. WORTLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I join my colleagues in commending you on holding this hearing today. As difficult as it is at times to contemplate our economic future, it is a reality that must be faced by all. In my opinion, the more long range planning a person does, the better off he will be.

Looking ahead into the future and taking in the total picture are two key items to survival. We must graduate high school students who can read and add. It should not be the responsibility of the corporation to spend millions of dollars and hours on end to do the job that the school should have done. In order that our future generations are competitive, they must graduate literate so that they can continue to grow with their jobs.

Another important area when examining what lies ahead is family size and when to start a family. It may be necessary to encourage young people to wait a few extra years before starting a family. While new babies are beautiful and bring much happiness to a new couple, a child may be much better off if the parents worked for a few years and began saving money so that the child would start out on a more solid base.

The cost of child care must also be taken into consideration when planning a family as well the cost of health care for both the dependents and the parents.

These are expensive items that must be taken into consideration.

John Naisbitt, in his best selling book MEGATRENDS, outlines ten very positive trends that he foresees for the future. More high-tech, more independent, and a trend from national themes to world themes. It is imperative that we properly prepare ourselves for these changes.

I look forward to hearing the testimony from this highly qualified group of witnesses and the opportunity later for some questions.

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